



Shelby County Government

MARK H. LUTTRELL, JR.
MAYOR

August 9, 2013

The Honorable Melvin Burgess, Budget Chairman
The Honorable Mike Ritz, Commission Chairman
Members of the Shelby County Board of Commissioners

Dear Commissioners:

I am pleased to present the Shelby County Adopted Budget for Fiscal Year 2014. Despite unprecedented budget challenges this year, the approved budget of \$1,193,592,711 continues to provide sufficient resources to fund the County's primary responsibilities of education, public safety and public health without the use of reserves or reductions to current service levels. Fortunately, the strength and stability achieved by County government over the past decade has prepared us well to face these fiscal challenges. Unique circumstances this year included:

- Reduced real estate appraisals
- Cost associated with the unification of City and County school districts
- Compliance measures required by the Department of Justice related to Juvenile Court

Property taxes are the foundation for the funding of County core services, representing over 60% of total revenue. For the first time in county history, the real estate property reappraisal conducted by the Assessor during 2012 resulted in lower assessments with significantly less property tax revenue calculated at the FY13 tax rate. State law provides a means to account for the impact of significant property value fluctuations by requiring a calculation of the "certified tax rate" – the rate that would equalize revenue to the prior year level. The Adopted Budget is based on revenue generated from the certified tax rate of \$4.32 plus an additional \$0.06 deemed necessary by the Administration and County Commission to provide additional funding for education.

The unification of City and County school systems that became effective on the first day of this fiscal year presented a second major budget challenge. The loss of \$65 million in funding previously provided by the City of Memphis combined with increased costs associated with the merger of two large independent systems (including school security) created a budget gap that could not be reasonably closed without additional funding from the County in the amount of \$20 million.

Another significant expense factor this year was the need to implement measures for compliance with the Department of Justice recommendations related to Juvenile Court operations. In addition to providing additional medical and other services for detainees, the responsibility for juvenile defense was transferred to the Public Defender's office which required the addition of 23 new positions.

Given the extraordinary circumstances presented this year and the need to fund pension and OPEB benefits, we were not able to include a salary increase for employees in the FY14 budget. This is unfortunate because our workforce has absorbed incremental cost increases for their

benefits over the past several years. A compensation increase for this deserving team of skilled and dedicated employees must be addressed in the upcoming fiscal year.

The County's outstanding bonded debt has been declining steadily since December 2006 when it peaked at \$1.849 billion. At June 30, 2013 the outstanding bonded debt will be approximately \$1.37 billion and is expected to decline an average of \$40 million per year going forward. Debt service peaked in 2011 at \$183 million is projected to decrease to \$168 million in FY2014 and to slowly decline thereafter. We have maintained all three of our bond ratings at the second highest ratings of AA+/AA+/AA1. Our continued strong financial management and commitment to take the necessary actions to balance our budget is extremely important to the rating agencies.

The Capital Improvement Plan is also included in this budget document. This five year plan continues to demonstrate strong commitment to our County Debt Plan which provides for a maximum annual allocation of \$75 million for capital expenditures. The FY14 CIP budget is for \$20 million in county investment, with the annual contribution of \$55 million for schools deferred for FY14 pending further assessment of needs after the merger transition. The Information Technology Steering committee participated fully in the CIP budget process to review and prioritize all technological projects submitted for consideration. County infrastructure is being responsibly maintained at this funding level while allowing for moderate investment in future development.

The basis for Shelby County budget policies is structural balance – the practice of limiting recurring expenditures to the level of recurring revenues. We believe that this constraint is imperative to continued fiscal integrity and long term survival during difficult economic times. The Fiscal 2014 Adopted Budget adheres to this philosophy by balancing expenditures to revenues without the use of General Fund balance. Maintaining the General Fund balance at a level of 23–27% ensures cash flow availability and the continuation of our excellent bond ratings for optimal financing options.

I want to sincerely thank the Elected Officials for their cooperation and support during preparation of this budget and the County Commission for their fiscal discipline as partners in the responsible stewardship of Shelby County resources. We are confident that the Adopted Budget for Fiscal 2014 meets the current needs of our citizens while allowing for the future growth and economic stability.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark H. Luttrell, Jr.', written in a cursive style.

Mark H. Luttrell, Jr.
County Mayor



Development of the FY2014 Budget

The County Commission began the FY2014 budget process with the approval of a Budget Preparation resolution in October of 2012 to set expectations regarding the calendar, format and content of the budget. In February of 2013, the Commission held a Budget Retreat to begin discussions concerning the difficult funding issues faced in the upcoming year and to affirm and more fully understand some of the underlying policies and goals that have served as the basis for budget development.

What are the basic financial policies and goals?

- To maintain structural budget balance by limiting recurring expenditures to reasonable projections of recurring revenues.
- To maintain an appropriate fund balance to ensure the strong financial position and credit rating of Shelby County Government.
- To adhere to the Debt Reduction Plan by limiting Capital Improvement Plan to a maximum annual county expenditure of \$75 million.
- To actively seek to reduce or minimize expenditures through efficiency, technology, innovation or identification of alternate funding sources.
- To continue to minimize the size of County government by focusing on the required core services of public safety, education, and health.

Are we achieving those financial goals?

- Average Annual Expenditure growth limited to only about 1% per year since 2008, including compensation, benefits and operational cost increases.
- Reduction of about 350 authorized General Fund FTE positions since 2008.
- Growth in General Fund Balance from about 18% of revenue to about 25% of revenue since 2008.
- General Obligation Debt reduced almost \$500 million since the 2006 maximum level.
- Agency bond ratings improved and maintained at AA+/AA1 during that period.

The recession of the past decade has had a negative impact on the economies of the County, the State and across the Nation. The population of Shelby County during this period has not grown significantly to increase the revenue base. However, evidence of gradual recovery is reflected in current economic indicators of unemployment statistics and the real estate market, while inflation remains relatively low at about 1.7%. The fiscal discipline supported by the County Commission in the past has placed Shelby County Government in a strong financial position to deal with current and future economic challenges.

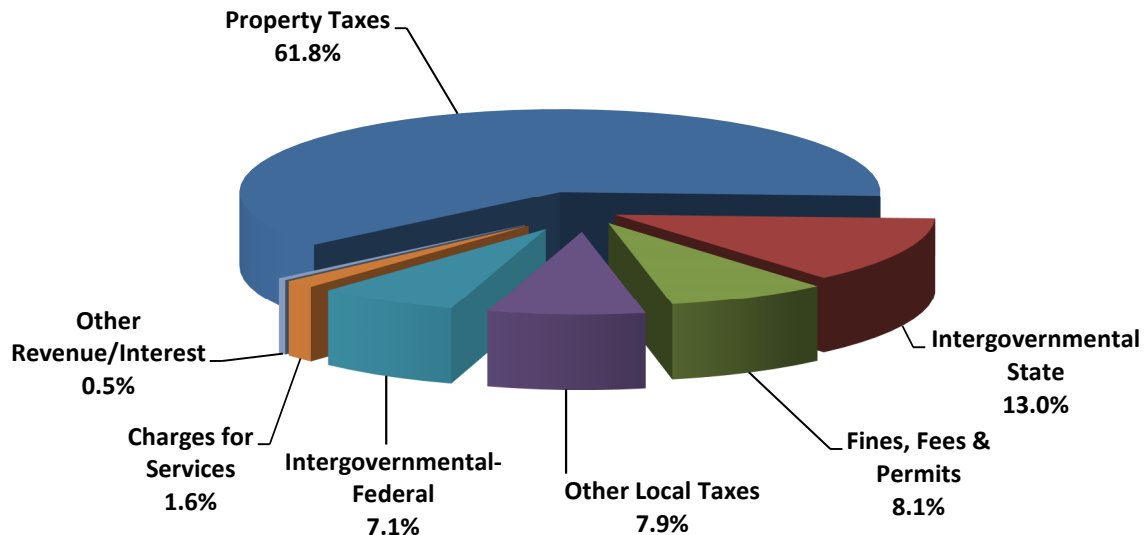
Adopted Budget Overview

The Adopted Budget for Fiscal Year 2014 is based on a total revenue projection of \$1,193,592,711. This represents a reduction of about \$21.5 million (1.8%) in comparison to the FY2013 budget, but almost 6% more than FY12 actual collections. The property tax portion of this amount is based on the approved tax rate of \$4.38 - the certified tax rate of \$4.32 plus an additional \$0.06. The overall decrease compared to prior year is related to reduced budgets for State and Federal grants.

Major revenue source categories are shown below with a comparison of the relative contribution of each category to the prior year adopted budget:

Revenue Category	FY14 Amount	FY14%	FY13%
Property Taxes	\$ 737,979,000	61.8%	58.8%
Intergovernmental - State	155,255,566	13.0%	15.0%
Fines, Fees & Permits	96,596,702	8.1%	7.7%
Other Local Taxes	94,662,000	7.9%	7.7%
Intergovernmental-Fed	84,682,354	7.1%	8.6%
Charges for Services	18,655,863	1.6%	1.6%
Other Revenue/Interest	5,761,226	.5%	.6%
Total Revenue	\$ 1,193,592,711	100.0%	100.0%

Countywide Revenue Overview



A more detailed analysis of revenue sources is provided in the "All Funds Summary" and the "General Fund Summary" sections of this document.

INTRODUCTION

Budget Overview

Revenue is recorded by fund type on the basis of property tax allocations or the specific nature of the revenue source, as follows:

Revenue Fund Type	FY14 Amount	FY14%	FY13%
General Fund	\$ 374,604,828	31.4%	30.6%
Education Fund	381,288,000	31.9%	30.5%
Debt Service Fund	163,231,269	13.7%	13.7%
Grant Funds	143,967,628	12.1%	13.7%
Enterprise Funds	81,815,382	6.9%	6.6%
Special Revenue Funds	38,116,548	3.2%	4.0%
Internal Service Funds	10,569,056	.8%	.9%
Total Revenue	\$ 1,193,592,711	100.0%	100.0%

Major funds are those that constitute more than 10% of total revenue. For Shelby County, the General Fund, Education Fund, Grant Funds and Debt Service Fund qualify as major funds. Although our focus is on the General Fund and its impact on our residents and businesses, it is important to recognize that there are other funds through which important services are provided to the community such as the Roads and Bridges, Codes Enforcement and Corrections Funds.

Property Tax Revenue

Property taxes are the primary source of operating revenue for Shelby County, providing almost 62.0% of total revenues. Property tax rates are set by the County Commission as a part of the annual budget review process at a level determined to be necessary to maintain a balanced budget while providing necessary services to residents.



A reappraisal was completed during 2012 by the Assessor of Property for Shelby County, with the results certified in April of 2013. This reappraisal was based on real estate sales activity that occurred during 2010, 2011 and 2012 throughout the County - a period that reflected the full impact of the economic downturn to the local housing market. The net effect for this reappraisal cycle was an overall property value decrease in most areas and the first ever recorded decline in overall property values for the County.

The Proposed Budget was initially based on the same level of property tax revenue as the previous year using the certified tax rate calculation, pending final reappraisal results. After the certified tax roll became available in April, budgets and funding options were reviewed during hearings conducted during April and May by the County Commission. After full consideration of all the revenue and expenditure factors, amendments to the Proposed Budget were evaluated.

Property Tax Rate and Distribution

The “penny value” represents the revenue generated by each penny of the tax rate. The value of one penny at the adopted FY14 tax rate = \$1,609,000 in revenue.

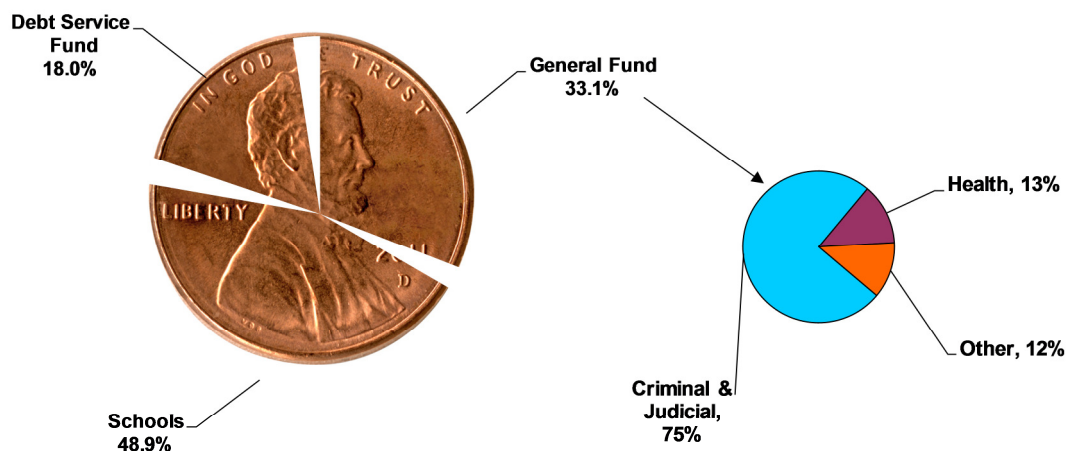
The revenues derived from property taxes are distributed as follows:

	FY14	FY13	FY12	FY11
Schools	\$ 2.14	\$ 1.91	\$ 1.91	\$ 1.90
General Fund	1.45	1.36	1.36	1.33
Debt Service	0.79	0.75	0.75	0.79
Sub-total	\$ 4.38	\$ 4.02	\$ 4.02	\$ 4.02
Rural Schools	0.04	0.04	0.04	0.04
Total	\$ 4.42	\$ 4.06	\$ 4.06	\$ 4.06

The tax rate distribution has been adjusted for FY14 to contribute relatively more to Schools with less to the General Fund and non-School Debt. Four cents had previously been reallocated in FY12 from Debt to increase Schools by one cent and the General Fund by three cents. The Debt Service rate was also reduced the previous year to increase the General Fund distribution.

Based on the distributions stated above, the property tax use percentage distributions are:

	FY14	FY13	FY12	FY11
Schools	48.9%	47.5%	47.5%	47.3%
General Fund	33.1%	33.8%	33.8%	33.1%
Debt Service-Schools	10.5%	10.5%	10.5%	10.7%
Debt Service-Other	7.5%	8.2%	8.2%	9.0%
Total	100.0%	100.0%	100.0%	100.0%



Including Debt Service for Schools, Education actually receives 59.4% of all property taxes. Of the portion of the property tax rate allocated to the General Fund (33.1%), about 75% is used for Criminal Justice/Judicial services and programs, 13% for Health Services, and about 12% for other functions.

Calculating the Certified Tax Rate

The certified tax rate is a method of calculating the tax rate that would be necessary to generate the same amount of property tax revenue for the proposed budget year as was generated in the prior year - based on reappraised home values. This calculation is intended to prevent windfall profits in the event of highly favorable reappraisal values. It is computed every year and approved by the State.

The results of the 2013 reappraisal presented an entirely new scenario for the County – an overall **decline** in property values. In this unusual situation, the certified tax rate was calculated to be higher than the prior year actual rate to equalize the total amount of revenue generated on reduced property assessments.



Assessed Value (Real and Personal Property)
 - Less Growth
 = Total Assessed Value

 Prior Year Billed Taxes, adjusted for appeals
 ÷ Divided by Current Assessed Value
 + Appeals Allowance - prior reappraisal appeals
 = Certified Tax Rate

The County Commission has the authority to raise the county tax rate up to 10% with a simple majority vote (7 of 13). To raise the tax rate 10% or more requires approval by 9 votes.

Functional Expenditures

Fiscal Year 2014 Countywide expenditures by functional categories consist of the following:

<u>Functional Category</u>	<u>FY14 \$</u>	<u>FY14 %</u>	<u>FY13 %</u>
Education	\$ 381,288,000	31.9%	30.4%
Criminal Justice	305,800,721	25.6%	24.9%
Debt Service	163,231,269	13.7%	13.7%
Health	75,125,077	6.3%	6.4%
Public Works	73,064,491	6.1%	6.2%
Community Svcs	79,726,297	6.7%	6.8%
All Other	115,356,857	9.7%	11.5%
Total	<u>\$1,193,592,711</u>	<u>100.0%</u>	<u>100.0%</u>

Including debt service for schools, Education represents 40.2% of total expenditures.

Education

Education is both our highest priority and our most significant expenditure challenge. While school unification presents significant challenges for FY2014 and the future, we are committed to supporting this essential community asset to the fullest extent possible.

- Education is budgeted to receive over half of all property taxes in FY2014, when school debt is included.
- Up to 100% of the Wheel Tax is allocated to the schools for their operating costs, with any remainder used to pay debt service for schools.
- State law requires that the County provide at least the same level of funding as the prior year, known as “maintenance of effort”
- An additional \$2.7 million is included in the Adopted Budget this year for School Security.

It is imperative that we find a workable balance between academic excellence and fiscal responsibility that can be sustained over time as the consolidation transition is implemented.

General Fund Summary

The General Fund accounts for the general operations of County Government. The proportionate functional distribution of General Fund net expenditures is shown below:

<u>Functional Category</u>	<u>FY14%</u>	<u>FY13%</u>
Criminal Justice	61.3%	61.3%
Judicial	14.1%	13.3%
Health	12.7%	13.0%
Public Works/Comm Svcs	6.2%	6.5%
All Other	5.8%	5.8%
Total	<u>100.0%</u>	<u>100.0%</u>



Criminal Justice and Judicial operations account for over 75% of General Fund expenditures.

Favorable revenue or expenditure factors in the General Fund included:

- Additional revenue related to Reappraisal fees, Business taxes, and Elected Official Fines & Fees
- Reductions in grants to non-profit and affiliated agencies
- Elections cycle included only one major scheduled election

Additional funding was necessary for:

- Increases for OPEB and Pension funding requirements
- School Security expense
- DOJ compliance requirements in departments of Juvenile Court and Public Defense
- Increases in some contractual agreements such as Inmate Medical Care
- Legal Fees

Compensation & Benefits



Personnel expenditures account for over 70% of total General Fund expenditures. That makes employees the County's primary asset and most important investment in delivering high quality services to its residents. It is important, therefore, that we protect our investment by offering equitable compensation and benefits to attract, recruit and retain a highly qualified and professional staff. However, the rising cost of pensions, health care and post-employment benefits continue to present a significant challenge in controlling total personnel expense.

Our employees have received a general increase in only six of the past 10 years – at an average rate of only 1.4% for that period. The history of general salary increases over the past ten years is provided in the General Fund section of this book. Unfortunately, no general salary increase has been included in the FY2014 budget due to the additional funding constraints faced this year. Employees have also absorbed a portion of the incremental cost of health and pension benefits and have compensated for the gradual reduction in workforce with increased productivity over the years.

Strategic efforts to contain costs related to personnel have resulted in the elimination of about 350 positions over the past six years in the General Fund - even with the addition of 35 School Resource Officers for school security and 23 positions in the Public Defender's office related to Department of Justice compliance. This gradual workforce reduction has been achieved primarily through planned elimination of vacancies rather than layoffs, with minimal reduction in services as a result. However, the workforce has now been reduced to a level that does not make significant future reductions feasible without service reductions. Therefore, the FY2014 Position Control budget includes a reduction of only eight (8) positions, with no layoffs.

Planned Use of Fund Balance

Maintaining an appropriate General Fund Balance is an essential element of a strong financial plan. Fund Balance is important for several reasons:

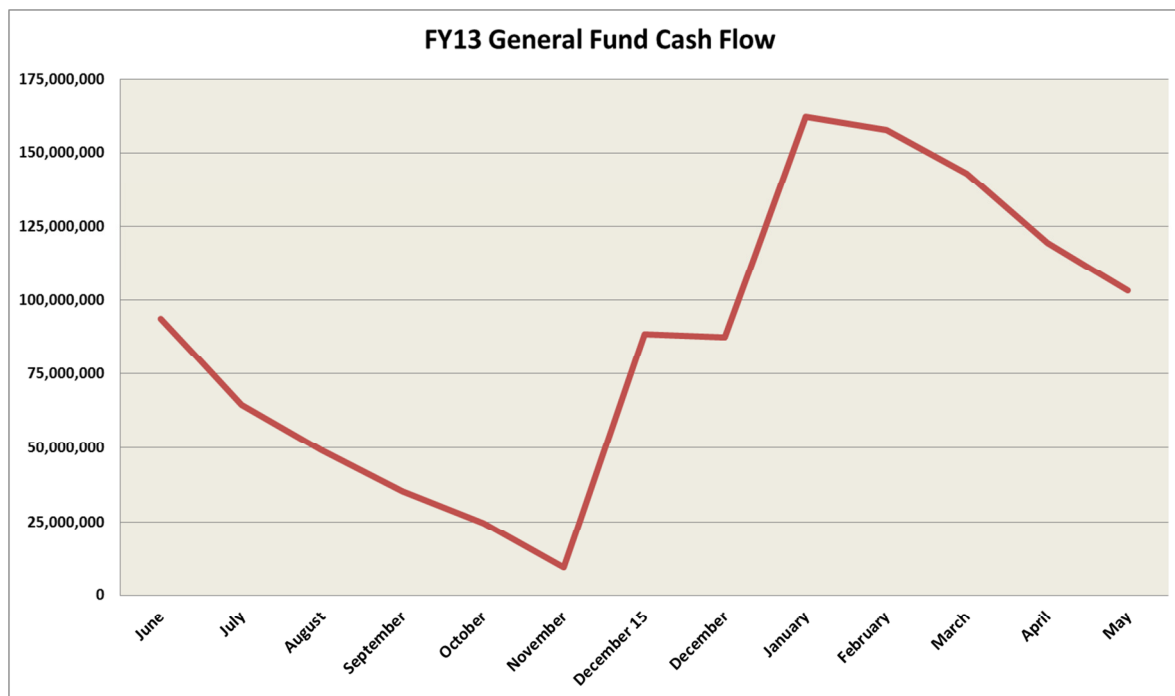
- To provide funds for contingencies/emergencies
- To absorb the impact of federal/state funding reductions

INTRODUCTION

Budget Overview

- To provide sufficient cash flow during the property tax collection cycle
- To demonstrate financial stability for higher bond ratings and lower cost of debt issuance

The Moody's rating agency has reported that governments comparable in size to Shelby County with AA ratings maintain a median 26.85% fund balance; with AAA ratings a median amount was 28.87%. Shelby County has maintained an average fund balance of about 23% of revenue over the past five years. That is within the stated policy range of between 15-25% of revenue. Unassigned fund balance at 6/30/13 is estimated at about 25.7% or about \$94 million. No planned use of general fund balance has been included in the FY14 adopted budget.



As this chart illustrates, the annual tax collection cycle creates the need for large cash reserves during several months of the fiscal year. A fund balance of about 27% would be advisable to allow for negative cash flow before residential payment collection begins in December. Therefore, the General Fund Balance should be slowly increased by about \$20 million over several years to provide for sufficient cash flow.

In addition to the General Fund balance, the County maintains reserves within other funds that are dedicated for the specific uses or operating stabilization of those funds. All funds are projected to have an appropriate fund balance as of June 30, 2013.

Capital Improvement Plan

The Capital Improvement Plan presents the County's funding level commitment over the next five years. However, only the first year of the CIP plan is actually budgeted. The County's long-term Debt Reduction/Management Plan allows for allocations of approximately \$75 million per year. Of that total amount, \$55 million is allocated annually for schools with an additional \$20 million allocated for other projects. We continue to recommend and support pay-as-you-go

INTRODUCTION

Budget Overview

funding for all capital projects other than schools. Shown below are the totals for each CIP project category budgeted for FY14 with significant projects from each group:

Buildings & Property - \$7.5 million

\$2.0M – Repairs and renovations to the Criminal Justice Center and Sheriff Substation

\$2.0M – District Cooling Loop for County downtown buildings

\$1.1M – Roof replacement at the Peggy Edmiston Building

Information Technology - \$7.8 million

\$3.2M – Accounts Receivable software for the Trustee

\$2.5M – Installation of the Integrated Criminal Justice Information System (iCJIS)

\$1.0M – Network and Host Server upgrade or replacement

Roads & Bridges - \$2.5 million

\$2.5M – Fite Road/Bridge extension in Northwest Shelby County (with 80% federal match)

Community Projects - \$2.3 million

\$1.0M – Main to Main Harahan Bridge project

The \$55 million annual CIP allocation for schools has been deferred once again for FY14, pending further review after school consolidation. This amount was also deferred for FY2012 and FY2013 during this transition.

Long Term Debt



The County's outstanding bonded debt and commercial paper peaked at \$1.85 billion in December 2006, was reduced to \$1.46 billion at June 30, 2012, and will be approximately \$1.37 billion at June 30, 2013. Long term debt is expected to slowly decline from now on as long as CIP annual appropriations from County sources are limited to no more than \$75 million.

A graph in the Debt Service Fund section shows debt service requirements from FY2013 through FY2025. Debt service for FY2014 will be \$177 million, a decrease from the budgeted FY2013 amount of \$186 million, and will slowly decline thereafter. As long as we stay within our Debt and CIP Plans, the County will never need to raise additional revenue for debt service.

Challenges Ahead

There are a number of significant issues that could impact our budget in the next several years:

- **Funding for Education** - The appropriate funding level for successful school unification remains somewhat uncertain at this point, as the ultimate school structure that will be established within the county continues to evolve. A period of transition may be necessary to determine a sustainable balance between meeting the educational needs of the community while staying within its realistic resources. This may significantly impact future county funding for Education.
- **Reductions to State or Federal grant funding** related to sequestration or other cutbacks may have an impact on the amount of funds available to the county in the future. Grant

funds provide financial leverage to the County in providing important human services to our community. Some programs will need to be evaluated to determine whether county funding should be used to continue essential services if the grant funding is discontinued.

- **Compensation increases** are an important element in maintaining a competitive compensation and benefits package so that we can ensure our ability to recruit and retain a highly professional staff.
- **Escalating health care and pension costs** will continue to play a major role in the cost of current and post-employment personnel expenditures. The level of benefits that can be realistically and responsibly provided to employees on a long term basis will require evaluation and possibly some modifications.
- **Elections and reappraisal cycles** will have an adverse impact on the General Fund in FY15 with increased costs for unreimbursed scheduled elections and the loss of reappraisal revenue from the municipalities (received every fourth year).
- **Federal Affordable Care Act** implementation and the associated expansion of State Medicaid may have a significant financial impact on the Regional Medical Center.
- **Revenue Diversification** options must continue to be explored to reduce our dependence on property taxes.
- **U.S. Department of Justice** compliance agreement requires enhancements to services provided by Juvenile Court and the Public Defender. Substantial progress has been made toward fulfillment of these requirements, but further action or programs may be warranted next year.

Current Status and Outlook

While these challenges are daunting, there are also opportunities ahead.

Despite the declines experienced in property values over the past few years, local real estate conditions continue to compare favorably to many areas of the country. The residential market appears to be improving based on the increased number of home sale transactions, stabilization of sale prices and reduced foreclosures and mortgage delinquencies. Commercial indicators also show increased activity in building permits, vacancy rates, leasing activity and construction.

Proactive financial management strategies that focus on operating efficiencies and effective debt management have been instrumental in maintaining the stability of Shelby County's financial status. Continuing efforts to promote revenue diversification and economic development and to address the fragmentation of services created by City/County structure and multiple elected officials will be instrumental in meeting the challenges of future growth. Bond rating agencies have noted a diversified and expanding economic base, strong financial performance and general fund position as the basis for the County's AA+/AA1 bond ratings.

INTRODUCTION

Shelby County Officials

Shelby County Board of Commissioners

Mike Ritz, Chairman, District 1, Position 1
Melvin Burgess, Chairman Pro Tempore, District 2, Position 3

Walter L. Bailey, Jr., *District 2, Position 1*
Steve Basar, *District 1, Position 3*
Henri E. Brooks, *District 2, Position 2*
Wyatt Bunker, *District 4, Position 2*
Sidney Chism, *District 3, Position 2*
Justin J. Ford, *District 3, Position 3*

James M. Harvey, *District 3, Position 1*
Steve Mulroy, *District 5*
Terry Roland, *District 4, Position 3*
Heidi Shafer, *District 1, Position 2*
Chris Thomas, *District 4, Position 1*

Elected Officials

Assessor of Property – Cheyenne Johnson
Attorney General – Amy P. Weirich
County Clerk – Wayne Mashburn
County Mayor – Mark H. Luttrell, Jr.
County Register – Tom Leatherwood
County Trustee – David Lenoir
Juvenile Court Clerk – Joy Toulaitos
Chancery Court Clerk & Master – Donna Russell (Appointed)
Circuit Court Clerk – Jimmy Moore
Criminal Court Clerk – Kevin Key
General Sessions Court Clerk – Edward L. Stanton, Jr.
Probate Court Clerk – Paul Boyd
Sheriff – Bill Oldham

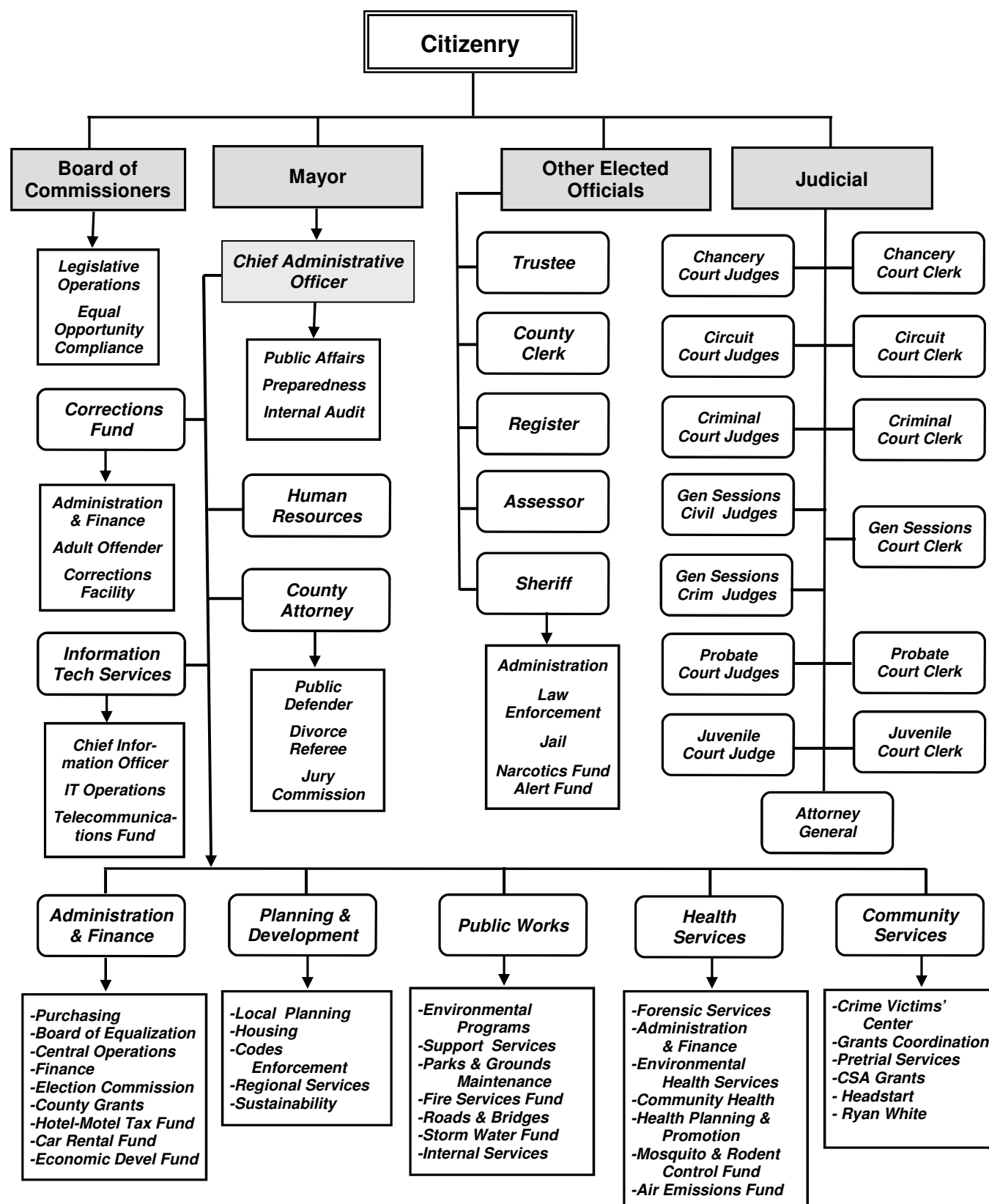
Shelby County Administrative Officials

Mark H. Luttrell, Jr., Mayor

Chief Administrative Officer – Harvey Kennedy
Chief Information Officer – John Halbert
Director of Administration and Finance – Mike Swift
County Attorney – Kelly Rayne
Director of Planning and Development – Richard S. Copeland
Director of Public Works – Tom Needham
Director of Corrections – James Coleman
Director of Health Services – Yvonne Smith-Madlock
Director of Community Services – Dorothy Jones

Vasco A. Smith Administration Building

160 North Main Street
Memphis, Tennessee 38103
<http://www.shelbycountyttn.gov>



INTRODUCTION

Shelby County, Tennessee

Government Structure and History

Shelby County was carved out of the Chickasaw Indian hunting grounds. The land was purchased, along with the rest of western Tennessee, by the United States for a total of \$300,000. Shelby County was drawn onto Tennessee maps on November 24, 1819, by an act of the State General Assembly. Named for the first governor of Kentucky and Revolutionary War hero Isaac Shelby, the county's first government was appointed by the General Assembly. The five-man Quarterly Court was called into session in a log cabin near Main and Winchester in the raucous river settlement of Memphis. Since the implementation of the Restructure Act on January 1, 1976, the County has operated under the Mayor-Commission form of government.

The County is divided into five districts, with 13 elected representatives on the County Board of Commissioners. All elected officials serve four year terms. The County includes seven incorporated municipalities including the cities of Arlington, Bartlett, Collierville, Germantown, Lakeland, Millington, and the City of Memphis. Shelby County also includes a large unincorporated area. The Mayor, as the County's chief executive officer, oversees the operations of the County's six divisions. The Sheriff, Assessor, Register, Trustee, County Clerk and Clerks of Court are separately elected officials. The thirteen members of the Shelby County Board of Commissioners (the Commission), the legislative branch of the government, reviews and approves the County's programs and budgets.



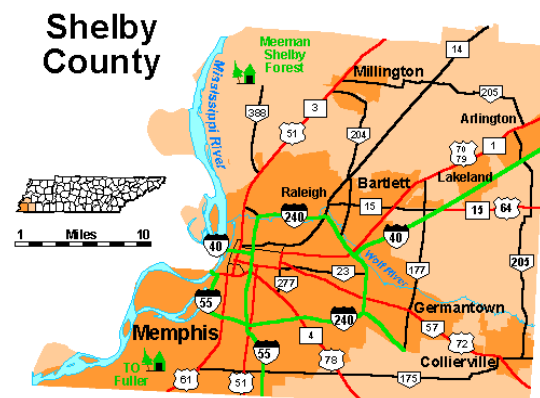
Shelby County is located at the southwestern corner of Tennessee on the Mississippi River. The county includes the City of Memphis and has the largest population of the 95 counties in the state.

Together, the administration and the Board of County Commissioners are responsible for governing the most populous of Tennessee's 95 counties. In August, 1984, the County's voters approved the Home Rule Charter which allows the Commission to pass ordinances locally rather than having to receive approval through the State of Tennessee. The Home Rule Charter became effective September 1, 1986.

in the United States. Located in the temperate zone, Shelby County enjoys four distinct seasons while having a generally mild climate year round. The average high temperature is 81.2 Fahrenheit while the average low is 42.2 Fahrenheit along with an average humidity of 69%. Rainfall averages around 49 inches each year and snowfall slightly over five inches.

Geography and Climate

Located in the southwest corner of Tennessee, the County is bordered by the Mississippi delta at the south and the mighty Mississippi River at the west. The county area contains 755 square miles; over 300 square miles of this area are within the city limits of Memphis. The Loosahatchie River, the Wolf River and Nonconnah Creek drain through the eastern part of the metropolitan area into the Mississippi River. Two large aquifers that lie below the Mississippi River supply drinking water to the citizens of Shelby County. Because of the aquifers' natural filtration process, our drinking water quality is considered to be one of the best



INTRODUCTION

Shelby County, Tennessee



At the heart of the County is Shelby Farms - one of the largest urban parks in the United States. At approximately 4,500 acres, it is five times larger than New York City's famed Central Park. The protection of Shelby Farms, the development of a cohesive greenbelt, the formation of a bikeway system, and the protection of a strong natural water supply are four important steps in making Shelby County an environmentally responsible community and an attractive destination for outdoor enthusiasts.

Business and Employment

Long known as the "Distribution Center of America," Shelby County is ideally located for transportation, travel and commerce, as evidenced by:

- The number one cargo airport in the world – the Memphis International Airport
- The convergence of five Class I intermodal railroads within the county
- A significant presence on nation's major inland waterway – the Mississippi River
- Future Interstate I-69 north-south connection
- Port of Memphis terminal to facilitate intermodal cargo transfer
- Central location for truck distribution to most U.S. destinations within two days

Shelby County corporations offer a diversity of employment opportunities. From the Nobel prize-winning institution of St. Jude's Children's Hospital to the international courier service of Federal Express Corporation, the region's economy has fared well during soft economic times.

Other major corporations located within Shelby County include AutoZone, Belz Enterprises, International Paper, Service Master, Smith & Nephew, Medtronics, and NIKE. More recently, Mitsubishi Electric Power Products, Electrolux, the Great American Steamboat Company and Bass Pro Shops have begun operations based in our community.

Demographics

The current population of Shelby County is approximately 940,000, with about 70% of that population residing within the city limits of Memphis. About 15% of Tennessee's entire population resides within Shelby County. The County is racially diverse, with about 53% African-American, 38% Caucasian, and about 9% Asian, Hispanic and Other.

Education

Education is a high priority for Shelby County. The combined enrollment for the newly created unified Memphis City and Shelby County school district includes almost 150,000 students with 13,500 full-time and part-time employees. The school system is the second largest single employer in Memphis and the largest school district in Tennessee. Next year several municipalities within Shelby County will begin to operate independent school districts.



Shelby County also offers nine institutions of higher learning to its citizens, including The University of Memphis, Rhodes College, LeMoyne-Owen College, Christian Brothers University and the University of Tennessee Health Science Center.

Core Belief and Values

Acting on its core belief that Shelby County Government exists only to serve the public and provide a quality community, Shelby County Administration has fostered a work environment that encourages the personal growth of its employees and a commitment to teamwork that produces innovative solutions, technical excellence, and continuous improvement. A strong ethics policy has reinforced integrity, innovative service, accountability, excellence and respect as the values for Shelby County Government.

SHELBY COUNTY GOVERNMENT MISSION, GOALS AND STRATEGIES

MISSION:

Shelby County Government strives to promote economic growth, improve community health, support education, enhance public safety, and protect natural resources. This mission is achieved through a dedicated workforce in an open, efficient and ethical government that is fiscally responsible and responsive to Shelby County's diverse needs.

STRATEGIC GOALS AND OBJECTIVES:

The Strategic Goals and Objectives listed below are discussed in more depth within this Introductory section and throughout the budget document in the Division Overviews and Program budgets.

Strategy 1: Promote Economic Development and a Healthy Economy

- Provide and support programs and policies that ensure aggressive growth for the region and promote high quality, long-term job opportunities that sustain revenue growth.
- Strengthen relations with other municipal, state and federal governments to develop cooperation and mutual support in economic development efforts.
- Provide a business-friendly environment in county operations and regulations.

Strategy 2: Support Quality Public Education

We will continue to invest in education as our highest priority to protect and enhance this primary community asset. A well-educated constituency

- Provide adequate capital and operational funding for all public schools in a manner that is fiscally responsible.
- Provide and support programs that ensure that children (0-5 years of age) receive care and training that prepares them to enter school ready to learn.

Strategy 3: Protect and Promote Public Safety

- Support and implement all phases of the ***Operation: Safe Community*** plan.
- Provide programs that promote adult re-entry strategies to reduce recidivism after incarceration.
- Support jail diversion programs such as drug court treatment to reduce detention costs.
- Ensure that effective disaster preparedness and 911 emergency response systems are provided.

Strategy 4: Protect and Promote Community Health

- Provide and support integrated healthcare services that focus on wellness, early intervention, and prevention.
- Coordinate agencies designed to strengthen the welfare of children and families.

Strategy 5: Protect and Promote Environmental Quality

- Provide and support programs that ensure a high quality of life and a safe environment for citizens.
- Develop and implement programs and policies that ensure "smart growth" in the region to protect natural resources and promote conservation while meeting the housing and health needs of the community.

Strategy 6: Provide Sound Stewardship for County Resources

- Enhance the capabilities and foster the professionalism of employee workforce through improved training programs and succession planning.
- Ensure financial stability through sound oversight of fiscal operations and debt management; develop alternative revenue sources.
- Evaluate programs and services to eliminate non-core functions that are not legally mandated. Streamline processes for more efficient operations through centralization, utilization of technology or outsourcing.
- Build trust and confidence in government through transparent, accessible, and responsive interactions with all internal and external customers.

INTRODUCTION

Strategic Goals/Objectives

Strategic planning promotes the County's commitment to high performance by providing a focus for the use of resources and services. The Administration has identified strategic goals and objectives as a roadmap to fulfilling the stated mission of Shelby County and to provide an objective foundation for decision-making and measurement of results. Developed in close cooperation with the County Commission, Elected Officials, and Division Directors, these planning initiatives are intended to assign appropriate levels of County resources toward achievement of the identified priorities with both a long and short term perspective.

Budget Linkage – Strategic plans are linked to resource allocation at several levels in the budget document to align strategy and performance throughout the organization:

- **Division Overviews** provide a narrative summary of how the county mission and strategies are developed and executed at the division level with reference to specific goals and initiatives.
- **Department Program Budgets** further develop those targeted division goals at the department and section level. **Performance measurement** has been used for several years to provide information about the workload, effectiveness, and efficiency of county programs. Although performance measures do not, in and of themselves, produce higher levels of efficiency and effectiveness, they do provide informational data that can help to reallocate resources, realign strategic objectives to improve services, or stimulate discussion and debate among stakeholders.
- **Key County Indicators** are also being developed as a tool to measure and communicate performance in areas where strategies and objectives have been identified for the county as a whole. Key Indicators may be stated in terms of comparable rankings or benchmarks with established national or state standards to measure progress of County performance against comparable agencies and expectations.

The strategic budget linkage approach continues to present some implementation challenges and a shift in organizational culture. However, the benefits of assessment in long term performance and budget accountability warrant continued efforts to incorporate and refine this linkage into the budget process.

STRATEGIC GOALS AND KEY COUNTY INDICATORS

Strategy 1: Promote Economic Development and a Healthy Economy

Shelby County is committed to providing programs and policies that ensure aggressive growth and promote high quality long-term job opportunities. One of the County's primary advantages for economic development is the combination of its central location in the United States and its excellent transportation facilities - including air, rail and water. Another advantage is the relatively low cost of living compared with other urban areas, particularly in terms of real estate values. Partnerships with other agencies and with state and local community leaders have been effective in forging alliances that promote economic development and fiscal sustainability in Shelby County.



Shelby County supports the five major initiatives of **Memphis Fast Forward**, a collaborative organization of 50+ public and private leaders dedicated to forming specific strategies related to job expansion, public safety, education, government efficiency, quality of life and economic growth. **The Memphis Shelby Growth Alliance** represents the economic development branch of Memphis Fast Forward, with **EDGE (Economic Development Growth Engine)** as the economic growth organization created to combine the efforts of several independent agencies with similar goals.



One method used to recruit and retain desirable business relationships is the use of **PILOTS (Payments in Lieu of Taxes)** and other funding

INTRODUCTION

Strategic Goals/Objectives

incentives or agreements. These agreements have been beneficial to commercial development in this area; however, their structure will be periodically reviewed to assess the need for revisions to terms, coordination, or oversight. Evidence of successful efforts to attract business and manufacturing include recent decisions by Electrolux, Mitsubishi Electric Power Products, and the Great American Steamboat Company to locate in Shelby County and by International Paper to expand their existing facilities and operations here.

The County has also adopted and implemented a **Unified Development Code (UDC)** through the **Office of Planning & Development** to address redundant City/County zoning and land use regulations that impede business development. Efforts by Shelby County to support the strength of **Locally Owned Small Business (LOSB)** have resulted in increased purchases from these vendors to at least 20% of expenditures.

Key County Indicators	FY10	FY11	FY12	FY13
Construction permits issued	6,875	6,154	6,695	7,295
Commercial property as % of total assessment base	32.0%	33.2%	30.7%	30.1%
Median Household Income	\$52,341	\$54,085	\$59,100	N/A
Families below Poverty Level	14.4%	16.4%	19.7%	N/A
Unemployment Rate	10.1%	9.9%	9.1%	9.8%

Strategy 2: Support Quality Public Education

Funding for education accounts for the largest functional expenditure of Shelby County Government. As a result of the decision by the City of Memphis in 2011 to surrender their special school district charter, the Memphis City Schools merged with the Shelby County Schools effective July 1, 2013. The unification of the two districts has required funding adjustments in both the operating and capital budgets.

To support the unified Shelby County School District, an additional \$20 million in funding was approved by the County Commission for FY14. CIP funding was deferred for FY14 pending further review after the transition. Distribution of funds allocated to education will shift again next year with the formation of six new municipal school districts as recently approved by voters within Shelby County.



The County also takes an active role in education through support for quality early childhood development initiatives such as **Head Start**. Current objectives include securing accreditation for local Head Start programs, expanding enrollment to more of the children eligible for participation, and tracking the educational progress of its students throughout high school graduation.

The County supports the **PeopleFirst** Partnership – a strategic plan coordinated by local public and private stakeholders designed to strengthen each child's educational "cradle to career" pipeline from kindergarten through college and beyond. Goals include improvements to kindergarten readiness, high school and college graduation rates, and adult career certifications in an effort to build and retain a quality 21st century workforce within Shelby County.

Key County Indicators	FY09	FY10	FY11	FY12
Average Cost per pupil – City Schools	\$10,394	\$10,767	\$11,324	\$11,250
Average Cost per pupil – County Schools	\$8,198	\$8,439	\$8,957	\$9,318
Average Cost per pupil – State of Tennessee	\$8,518	\$8,773	\$9,084	\$9,123
Average graduation rate – City Schools	62.1%	70.8%	72.6%	70.3%
Average graduation rate – County Schools	96.3%	91.2%	88.9%	90.5%
Average graduation rate – State of Tennessee	83.2%	86.1%	85.5%	87.2%

INTRODUCTION

Strategic Goals/Objectives

	FY09	FY10	FY11	FY12
Average ACT Score – City Schools	17.3	16.6	16.2	16.4
Average ACT Score – County Schools	21.6	21.0	20.7	20.8
Average ACT Score – State of Tennessee	20.3	18.3	19.0	19.2
Head Start enrollment*	3,967	4,323	4,523	4,366
Head Start enrollment as % of eligible population*	22.0%	24.0%	25.1%	24.3%

* Total eligible population includes children 6 mos. to 5yrs old; 3-4 yr. olds comprise majority of population served

Strategy 3: Protect and Promote Public Safety

Public Safety is a fundamental concern and responsibility for Shelby County – second only to Education in total functional expenditures. Our commitment to public safety is evidenced by the wide variety of programs funded or supported throughout the county government structure. Strategies to reduce crime and to promote public safety are discussed below.



The **Sheriff's Office** has primary responsibility for crime prevention and control in Shelby County and for jail operations for pretrial detainees in custody. In addition to the many programs outlined in their budget section of this document, they have expanded inmate programming to reduce recidivism and continue to support and develop alternatives to incarceration through Operation Safe Community, the Criminal Justice Coordinating Council, and the Behavioral Mental Health Task Force. In partnership with other local law enforcement organizations, the Sheriff has expanded Project Safe Neighborhood - a federal initiative to reduce gun crime. Grant

funding has been secured to implement programs to impact crimes against women, domestic violence, traffic safety and drug trafficking.

Operation: Safe Community was established in 2007 as a strategic initiative to reduce crime in Memphis and Shelby County. The group uses coordinated strategies within the Mayor's offices of Shelby County and the City of Memphis, Shelby County Sheriff's Office, the Memphis Police Department, as well as faith-based, social service and neighborhood organizations to combat the area crime problem. Shelby County plays a key role in implementing OSC strategies by supporting funding for additional prosecutors and data driven officer deployment, advocating the OSC agenda in state legislation, and assisting with related code enforcement and family safety programs.



The **Division of Corrections** manages the incarceration of convicted criminals in a cost-effective manner that ensures the safety of citizens. Rehabilitative programs, such as the **3R Project**, have been emphasized as a means to prepare inmates for successful re-entry into society. The 3R Project assists ex-offenders with housing, mental and physical health services, family unification, life skills and employment. Other adult offender re-entry programs have been expanded to reduce recidivism.

Jail Diversion programs have been expanded to reduce the cost of incarceration. The Shelby County **Drug Court** program offers services intended to reduce the jail population by offering an alternative to incarceration for adult, non-violent drug offenders and to reduce the number of repeat drug offenses. The **Public Defender's Office** provides a link to treatment-based alternatives to incarceration for clients with substance use and mental health disorders. The Community Services Division also coordinates several diversionary alternative programs, most notably the **Jericho Project** that links criminal detainees with serious mental illnesses to supervised release options and treatment resources.

Shelby County also provides leadership through the **Office of Preparedness** and participation in the **Urban Area Security Initiative (UASI)** to ensure that appropriate resources and organization are available to respond to major disasters that threaten public safety. This response ability was favorably tested by the

INTRODUCTION

Strategic Goals/Objectives

flooding conditions experienced during the spring of 2011. A new facility has been provided to bring together emergency operations to facilitate effective coordination and timely responses.

Fire prevention and suppression is provided for about 46,000 structures in the unincorporated areas of Shelby County, along with emergency medical treatment and hazardous materials mitigation. Emergency medical services are being expanded throughout the county by equipping all fire stations with Advanced Life Support (ALS) personnel and equipment.

Key County Indicators	FY10	FY11	FY12
Felony Offenses (Part I Crimes)*	4,080	3,807	3,237
Average Sheriff Response Time—unincorporated areas (minutes)	12.5	12.5	13.0
Average Daily Population - Jail	2,493	2,700	2,691
Average Daily Population - Corrections	3,050	2,663	2,475
Fire/EMS Call Average Response Time - unincorporated areas	6:56	6:56	6:47
% of Fire/EMS Calls made within standard time (10 min:30 sec)	89.4%	89.1%	91.6%
Fire/EMS Call Average Response Time - municipal areas	5:08	5:01	4:58
% of Fire/EMS Calls made within standard time (9 min:00 sec)	93.4%	93.2%	94.2%

**Part I Crimes include: Murder, Forcible Rape, Aggravated Assault, Robbery, and Theft
Statistics are reported on a calendar rather than fiscal year basis.*

Strategy 4: Protect and Promote Community Health

Public Health is a designated responsibility of county governments in Tennessee. Shelby County fulfills this important role through several of its divisions and programs to promote, protect and improve the health of its residents.

The County supports the mission of **Healthy Shelby** initiative, a multi-sector public-private partnership that focuses on achieving better health behaviors, better care options, and lower health care costs. In producing system changes that improve public health, this alliance hopes to increase the appeal of Shelby County for potential business growth, reduce the health care burden on employers and individuals, and promote quality of life for citizens. A **Prescription Drug Discount** program has been made available to Shelby County residents through a partnership with a private benefits provider to ease the burden of obtaining prescriptions and to encourage health screenings.



The Regional Medical Center at Memphis (The Med) plays a critical role as the provider of vital health-care services in Shelby County and the surrounding multi-state region. The County has worked closely with state and local governments, the Med administration, and the community to develop alternate funding sources to provide for long term sustainability of the hospital and to work collaboratively with stakeholders as advocates. Funding to the Med also provides hospitalization care for inmates in county custody.

The **Health Services Division** works closely with other agencies and community partners to reduce the risk of **chronic and infectious diseases** within Shelby County. Educational programs and services address the widespread behavioral and social risk factors associated with disease that are prevalent in this area. Current epidemiologic methods are used to define infectious public health concerns and to detect, measure and track risk so that containment and treatment options can be maximized. **Environmental Health programs** coordinated by the Health Services Division have contributed to the control of mosquito and rodent populations for the prevention of vector-borne diseases (most recently the West Nile virus). Regular inspections of restaurants and grocery stores serve to minimize bacterial or viral infections spread through improper food storage or handling.

INTRODUCTION

Strategic Goals/Objectives

The **Infant Mortality Reduction Initiative** is a statewide project aimed at reducing infant mortality and improving birth outcomes. The significant decline in infant deaths within the last eight years is a promising sign of overall health improvement in Shelby County. A **dental health program** for children targets prevention through the provision of sealants in grades K-8.

Wellness education is a strategy designed to motivate residents of Shelby County to take ownership of their personal health and health care. Programs promoting wellness include “**Let’s CHANGE**” and the “**Million Calorie Reduction Campaign**”. Mayor Luttrell has introduced wellness planning to County employees by offering healthy vending machine options, exercise and nutrition programs, and health insurance discounts to employees who achieve personal health improvement goals.

Key County Indicators	FY10	FY11	FY12	FY13
% of low birth weight babies	11.1%	11.0%	11.1%	11.1%
Infant mortality rates (per 1000 live births)*	10.3	9.6	10.6	N/A
Access to Clinical Care ranking (of 95 TN counties)**	15th	15th	12th	14th
Health Outcomes ranking (of 95 TN counties)**	57th	58th	59th	53rd
Health Behaviors ranking (of 95 TN counties)**	83rd	77th	55th	62nd

**data beyond 2012 not available*

***source: University of Wisconsin Population Health Institute - County Health Rankings*

Health Outcomes measure Mortality (length of life) and Morbidity (quality of life)

Access to Clinical Care measures factors of Access to care and Quality of care

Health Behaviors measures use of tobacco and alcohol, diet & exercise, and unsafe sexual practices

Strategy 5: Protect and Promote Environmental Quality



Shelby County Government is committed to preserving and enhancing the natural resources with which this community has been blessed.

Our natural rivers and streams attract outdoor enthusiasts from both urban and suburban areas. Nearly four times larger than New York’s Central Park, **Shelby Farms** is a recreational gem for families, athletes and sportsmen. Using federal, state and local funding, the County has worked with other agencies to create a cohesive **Greenbelt** that protects the natural areas and connects the County’s communities from downtown Memphis eastward to Collierville, with 16 miles of trails on the very popular **Greenline**.

The **Memphis and Shelby County Office of Sustainability**, created in April of 2011 and funded through an Energy Efficiency Community Block Grant (EECBG) from the U.S. Department of Energy, is charged with the implementation and oversight of the **Sustainable Shelby Plan**, a strategic framework for action with regard to “green” initiatives in Shelby County. The Office of Sustainability is the area’s leading advocate and resource for sustainability and coordination of various regional initiatives and hosted the 2013 Urban Sustainability Directors Annual Conference.



Through the **Memphis Regional Groundwater Study**, the County is using federal funds to ensure the preservation and protection of our excellent regional water quality and aquifers. The County also provides landfill monitoring, testing, and maintenance to protect the groundwater from potential contaminants for 335 acres of landfills, in conformance with state landfill closure procedures. The **Storm Water Program** protects residents from the adverse impact of uncontrolled storm water drainage and the discharge of pollutants into the receiving waters. A countywide master plan for flood plan management practices is in development in

INTRODUCTION

Strategic Goals/Objectives

conjunction with supportive local legislation to reduce adverse impacts from urban development and changes in flood profiles.

In coordination with the **Mid-South Clean Air Coalition**, Shelby County and its coalition partners consult and educate government, business and industry, educational institutions and the general public on air quality issues. The Coalition also consults and assists government agencies in administering voluntary and mandatory control measures to improve air quality. **Congestion Mitigation Air Quality** projects funded by federal grants have been implemented to reduce harmful toxins created by vehicle emissions. **Environmental Health programs** coordinated by the Health Services Division have also contributed to area improvements in EPA ozone standards and the expansion of water quality monitoring and groundwater protection inspections.

Blight control is an environmental issue with economic development impact. An aggressive effort has been made to revitalize neighborhoods through the removal of structures or debris that may have negative effects on the health, safety or general appearance of the community. Several divisions have joined forces to enforce or strengthen local ordinances that regulate illegal dumping and lot maintenance. A partnership with Wells Fargo has provided additional funds for this initiative.

Strategy 6: Provide Sound Stewardship for County Resources

Shelby County government strives to be accessible, responsible, and accountable in the management of County resources and assets. A tradition of strong financial management and reporting is evidenced by high bond ratings, favorable audit results and recognition for financial reporting and budgeting by the Government Finance Officers Association (GFOA). Since the implementation of a **Debt Reduction Plan** in 2002, the County's outstanding bonded debt and commercial paper peaked at \$1.85 billion in December 2006 and has declined annually since then to \$1.37 billion at June 30, 2013. As long as the County stays within its Debt and CIP Plans, outstanding bonded debt will continue to decline until it is well under \$1 billion and it will not be necessary to raise additional revenue for debt service.

The County has been successful at maintaining core service levels despite increasing costs through ongoing efforts to streamline operations by means of efficiency, centralization, use of technology, or outsourcing. A gradual **workforce reduction** has been achieved through efficiencies rather than layoffs to control the escalating costs of salaries, benefits and pensions. **Training programs** have been implemented to enhance the productivity and professionalism of the County's greatest resource – its employees.

Another area of significant resource management is the maintenance of **County infrastructure and facilities**. The Public Works Division is charged with providing cost-effective maintenance for approximately 120 county-owned and/or leased properties totaling 3 million square feet of space. The **Roads and Bridges Department**, also within Public Works, maintains local infrastructure including 800 miles of County roads, 192 roadway bridges and 350 miles of underground storm system piping.



Trust and confidence in government are promoted on an ongoing basis through transparent, accessible and responsive interactions with all internal and external customers. Shelby County seeks to create a culture of **citizen engagement and trust** by promoting public-private partnerships, civic group policy involvement, and volunteerism. The Administration has designed several outreach programs to educate citizens about local government, including the **Citizens Academy** that provides in-depth information about County operations. The County website has been redesigned to provide a more user-friendly portal to information of interest to

INTRODUCTION

Strategic Goals/Objectives

businesses and citizens. Mayor Luttrell also conducts regular “*Meet the Mayor*” sessions with individual citizens to hear to their concerns and suggestions to improve Shelby County.

Key County Indicators	FY10	FY11	FY12	FY13
Taxes collected within first year of the levy	90.93%	91.87%	93.02%	93.94%
Bond Ratings (Moody's/ S&P/Fitch)	Aa1/AA+ /AA+	Aa1/AA+ /AA+	Aa1/AA+ /AA+	Aa1/AA+ /AA+
% of General Obligation Debt to Taxable Assessed Value	8.45%	8.53%	7.66%	7.25%
Total Government Debt Per Capita	\$1,856	\$1,796	\$1,576	\$1,492
GFOA Certificate of Achievement for excellence in Financial Reporting (CAFR) – consecutive years	25	26	27	28
GFOA Distinguished Budget Presentation award – consecutive years	2	3	4	5
Number of General Fund Positions (FTE)	4,023	3,910	3,857	3,875



Calendar for Development of Fiscal Year 2014 Budget

SEPTEMBER – OCTOBER 2012

- Developed budget policies and guidelines for preparation of Operating Budget and CIP requests
- Updated TeamBudget security, formats and software training materials
- Oct 22 – Commission adopted Budget Preparation resolution to establish FY14 budget process

NOVEMBER – DECEMBER 2012

- Reconciled Position Control budgets
- Prepared initial revenue projections, cost assumptions and fringe benefit rates
- Nov 6 – Distributed instructions and forms for CIP 2014-2018 requests; revised template for Program Budgets & Service Level Measurements
- Dec 7 – Capital Improvement Plan budget requests submitted to Finance

JANUARY 2013

- Jan 7 – Distributed FY14 Operating Budget Kickoff Instructions and Calendar and opened TeamBudget to departments for FY14 data changes
- Jan 10 - 17 – Provided TeamBudget Assistance Workshops for user support and guidance
- Jan 23 – Budgets submitted by divisions of Administration and Finance, Public Works, and Elected Officials
- Jan 29 – IT Steering Committee met to review CIP budget requests for 2014-2018
- Jan 30 – Budgets submitted by divisions of Community Services, Health, Corrections, and Planning & Development
- Jan 28 - Feb 11 – Finance review of budgets submitted by divisions

FEBRUARY – MARCH 2013

- Feb 6 – Budgets submitted by Judicial division
- Feb 20 – Unified Schools Budget estimate, Trustee Revenue forecast, and Grant Requests for Non-Profit Organizations submitted for review
- Feb 23 – Commission Budget Retreat
- Feb 25 - Mar 8 – Consolidated and reviewed Countywide budget
- Mar 11 - 22 – Compiled and printed Proposed Budget document
- Mar 28 – Presented Proposed Budget to Commission; distributed budget document to Division Directors and Elected Officials

APRIL 2013

- Apr 4 – Proposed Budget summary published in Daily News

Commission Budget Hearings:

- Apr 10 – Presentation of Proposed Budget Overview to County Commission by Mayor
- Apr 17 – Grants to Non-Profit Organizations and Increase Requests (Attorney General, Public Defender, and Trustee)

MAY 2013

- May 8 – Budget Hearings for CIP, Debt Service, Juvenile Court; Mayor's Administration and Sheriff
- May 15 – Proposed Budget amendments presented in Committee
- May 20 – Commission approved FY14 Capital Improvements Plan; FY14 Compensation Policy; and 2013 Certified Tax Rate
- May 22 – Shelby County Schools (Unified School District) budget hearing

JUNE – JULY 2013

- Jun 3 – Commission approved FY14 Operating Budget
- Jun 17 – Commission approved FY14 Shelby County Board of Education Operating Budget
- July 1 – Begin Fiscal 2014
- July 22 – Commission approved 2013 Tax Rate Ordinance (3rd reading)

AUGUST 2013

- Prepared Adopted Budget document; submitted to State for approval

Format and Organization of the Budget Document:

As the **Table of Contents** illustrates, this book divides the budget information into multiple sections with pages numbered consecutively within each section.

The **Introduction** section includes the **Mayor's Letter of Transmittal and the Budget Overview**, a list of County Officials, a countywide organizational chart, and general information about Shelby County including fund accounting structure, and budget procedures and controls.

The second section, the **All Funds Summary**, presents the overall budget of Shelby County with supplemental information related to Revenues and Expenditures, the Position Control Budget, and Fund Balances.

The third section, the **General Fund Summary**, includes the Major Revenue Sources and Major Expenditures. It is followed by tabs for each division within the Mayor's Administration, the Sheriff, Judicial, and Other Elected Officials.

Each **Divisional Section** includes the following information:

- **Organizational Charts by Department** as a visual guide to the structure of each division for financial reporting purposes only. These charts are not intended to reflect the reporting hierarchy of specific positions.
- **Division Overview** narrative to present the Division mission and goals, issues and trends, performance highlights and significant budgetary issues for the budget year.
- **Division Summaries** to present total financial and position data for each division grouped by department, fund, and account groups. Position count indicates the Full-Time Equivalent (FTE) number of permanent full-time, part-time and split positions only. Temporary employees are not included in this position count.
- **Prime Account Reports** to summarize financial data within each division on a departmental basis for all fund types. The prime accounts are organized according to Shelby County's Chart of Accounts.
- **Program Budgets** for each department to give the reader relevant operational information including the overall mission, a description of activities and services, revenue sources and Service Level Measurements which provide quantitative service information.

The **Education** section presents the Education Fund which accounts for taxes collected and allocated for school operations. The County reports the Education Fund as a major fund.

The **Debt Service** section includes Shelby County debt management policy, the use and purpose of debt and its limits and capital financing funding types.

The **CIP** section provides a five year Capital Improvement Plan (CIP) for capital expenditures.

The **Appendix** presents supplemental information about Shelby County residents, businesses, and government including: fiscal policies, relevant demographic/statistical data, a glossary of budgetary terms and abbreviations that may be referenced in this document and contact information for elected and administrative offices.

INTRODUCTION

Budget Process

Operating Budget Process

The budget process establishes the priorities of Shelby County Government. A Commission resolution requires the County Mayor to submit a consolidated budget document to the Board of Commissioners by March 31 and State law requires that the County adopt a budget before July 1. These dates drive the budget calendar.

The formal budgetary process begins with a goal-setting workshop for senior administrative management. After identifying and prioritizing general goals and objectives, specific strategies and action plans for implementation are prepared at the division management level. This planning process serves as the basis for formulation of departmental budgets. These budgets are reviewed by the respective division directors and a combined division budget is prepared incorporating administrative review changes at that level.

Division budgets are submitted to the Chief Administrative Officer for a final level of administrative review. After any revisions and a final executive review by the Mayor, a consolidated budget for the County Administration is prepared. Elected Officials submit their respective budgets to the budget office to be included in a consolidated budget document that is presented to the Budget and Finance Committee of the Board of County Commissioners. The Shelby County Commission held a budget retreat on February 23, 2012, to jumpstart a review of preliminary budget numbers for county government as a whole.

State law requires the County to publish the annual proposed operating budget in a newspaper of general circulation. This statute specifies that the budget must be published no later than five days after it is presented to the county legislative body if the newspaper is published daily. However, the budget cannot be adopted until at least ten days after it is published.

The Budget and Finance Committee conducts public review meetings and recommends revisions to the consolidated budget. The revised consolidated budget is presented for approval to the Board of County Commissioners. The legislative body is responsible for final approval and appropriation of the consolidated budget and sets the property tax rate. The adoption of the budget shall be by resolution. The tax rate is set by Ordinance which requires three readings.

The financial plans of Shelby County are included in the annual capital and operating budgets to project all receipts and disbursements, and present the level of governmental services and the method of distributing costs to the various segments through the collection of taxes and fees. By the terms of its Home Rule Charter, Shelby County Government is not permitted to make any expenditure of funds unless funds sufficient for that expenditure have been appropriated by the Board of Commissioners.

The Operating Budget as adopted by the Commission specifies only the departments, major funds, and accounts to which monies are allocated. To ensure compliance with contractual and other spending restrictions and to facilitate internal and external reporting, some of these major funds, notably the Grant funds, are subdivided into multiple funds in the financial accounting system. Also, to control expenditures and monitor performance at a level of greater detail, many departmental operating budgets are subdivided by sections in the financial accounting system.

The Home Rule Charter prescribes that expenditures may not exceed budget by major account at department level. Moreover, Generally Accepted Accounting Principles prescribe that the County's financial statements include a presentation indicating budgetary compliance for all funds for which annual budgets are adopted. The State of Tennessee Comptroller of the Treasury reviews the County's adopted budget because the County has outstanding debt. The County's budget is submitted to the State Director of the Division of Local Finance after adoption.

Capital Improvements Budget Process

The County annually prepares a five year Capital Improvement Plan (CIP) for capital expenditures, as defined below. Each elected official and division director is asked to evaluate their capital needs for the next five years and to submit their requests for inclusion in the Capital Improvement Plan. Projects are prioritized based on the urgency of the need, as described in the request, with consideration also given to whether the project was included in the prior year CIP. A major factor in determining priorities is whether the project

INTRODUCTION

Budget Process

improves the efficiency and effectiveness of County government. Priority is also given to projects that will provide cost savings to the County. The County has an established maximum annual Capital Improvement Plan of \$75,000,000 from County funds (debt and pay-as-you-go). Of this, \$55 million is allocated for school funding.

Although the five-year Capital Improvement Plan is approved in total, only the budget for the first year is actually adopted as the CIP Budget. This budget is an allocation or indication of intent by the County Commission. The remaining four years are approved as the plan for the subsequent years. All projects in the approved Capital Improvement Budget are subject to subsequent appropriation by the Board of Commissioners. Each project must be approved by a resolution to appropriate the amount for the project and to approve the contract or purchase of the project.

Mid-Year Changes to the Adopted Budget

When unforeseen circumstances necessitate adjustments to the budget during the fiscal year, changes can be accomplished in two ways. The County Mayor or his designate is authorized to transfer budget amounts between line items of the same category (personnel related versus all other types of expenditures) of the same division (group of departments) and same fund type. A line item transfer shall be deemed effective when the Mayor or his designate has indicated his approval by signature. All other adjustments require a resolution. A resolution shall be deemed effective when signed by the Mayor to indicate his approval and by the Clerk of the County Commission or her deputy to attest its passage by the Commission.

Carry Forward Encumbrances

At any given time, there are certain agreements in place, evidenced by contracts or purchase orders, by which Shelby County is obligated to make various payments to vendors on condition of future performance of services or future deliveries of goods by the vendors. These obligations are known as encumbrances. The County's Accounting Policies Resolution prescribes that at every fiscal year end the old year's budget is reduced by the amounts of all such encumbrances then outstanding (known as carry forward encumbrances), and the new year's budget is increased by the same amount. Any amount by which a new year's budget is increased for carry forward encumbrances may only be expended as follows:

- 1) In the case of the Operating Budget, for the contract or purchase order for which the budget increase was made.
- 2) As prescribed by Resolution, General Fund carry forward encumbrances are restricted to Professional and Contracted Services, Rent Utilities & Maintenance and Asset Acquisitions in excess of \$5000. All other encumbrances remain open and reduce budget availability in the new year; unless the department requests that the encumbrance be closed.
- 3) In the case of Capital Projects Budget, for the specific purpose for which the monies were appropriated.

Position Control Budget

An integral part of the annual Adopted Operating Budget for Shelby County is the Position Control Budget (PCB) that defines the approved salary for each position. The purpose of the Position Control Budget is to ensure that total salary costs will not exceed the amount of the annual cost of living raise from one fiscal year to the next. This budget is maintained by the Finance Department throughout the year.

Any salary increase that is requested for an employee by a department for purposes of reclassification, equity, or other circumstances must first be approved by Compensation. The department must then identify funding for the increase through availability from another position, a salary contingency account, or an approved resolution appropriating funds from another source. Savings realized through vacancies or attrition (lapse) cannot be used to fund salary increase requests. Funds budgeted for variable salaries (overtime, etc.) or temporary salaries cannot be used to fund permanent salary obligations.

A significant factor within the position control budget at the divisional level is the salary restriction (also known as the lapse restriction). This reduction to available salary funds is made to allow for expected savings associated with vacancies or other types of naturally occurring attrition. Allowances are made to consider the variable attrition rates within different types of functions when salary restrictions are calculated.

INTRODUCTION

Chart of Accounts

The Shelby County Chart of Accounts is available on the County intranet site for department users with detailed descriptions of funds and accounts. The accounts are updated on a monthly basis to maintain complete and accurate information. Department budgets are adopted at the prime account level; those groupings are summarized below.

How to Read the Financial Data:

Each department's financial page presents a summary of all revenues, expenditures and transfers categorized by **Prime Account** groupings. The accounts are defined by Shelby County's **Chart of Accounts** – the financial coding structure used for budgeting and accounting purposes which was revised for Fiscal 2010.

The County uses **section numbers** to identify departments or activities for purposes of accumulating revenues and expenses and for budgetary control purposes. Each financial transaction includes a full account coding in the format of 123-123456-1234; the first set of 3 numbers is the fund number, the middle set of 6 numbers is the section number and the last set of 4 numbers is the account number.

Structure of Section Numbers:

The complete section number contains 6 digits. The number is subdivided into the following parts:

- a. First 2 digits: division number
- b. Middle 2 digits: the department number, when combined with the division number
- c. Last 2 digits: the section number, when combined with the department number.

Section number (6-digit) financial data is the lowest form of detail in the budget document in the form of program budgets.

Structure of Department Numbers:

This 4-digit number includes the division number and two additional numbers. For example, Department number 3011 is Public Works: Soil Conservation.

Compliance with the legally adopted budget of the County requires that expenses be charged to the correct section number at least to the department level, since the budget is adopted at the department level.

The following Division Numbers are assigned:

- 20 - Administration & Finance
- 25 - Information Technology Services
- 27 - Planning & Development
- 30 - Public Works
- 35 - Corrections Center
- 40 - Health Services
- 48 - Community Services
- 61 - Sheriff-Administration
- 62 - Sheriff-Law Enforcement
- 63 - Sheriff-Jail Division
- 70 - Judicial
- 80 - Other Elected Officials
- 91 - Education
- 92 - Debt Service
- 93 - Internal Service Funds, non-operating

Revenue and Expense Account Structure:

As noted above, the County uses a 4-digit "account number" to classify revenues by the source of the revenue and expenses by the nature of the related goods or services. In the budget document, the prime accounts provide detail by "pools" or a summary of all 4-digit accounts based on the first two digits of an account category. For example, a 60XX supplies pool is the total of all 4-digit accounts beginning with the account number "60."

The **Revenue** category includes the following prime account groupings:

- **Property Taxes** – Current and delinquent realty and personalty taxes collected by the Trustee.

- **Other Local Taxes** – Business taxes, interest and penalties on tax payments, MLGW in Lieu of Taxes, wholesale beer tax.
- **Intergovernmental Revenue – State** – County share of state sales tax, state grants and reimbursements, TVA Replacement tax, jail revenue from state.
- **Intergovernmental Revenue – Federal & Local** – Grants, revenues and reimbursements that Shelby County receives directly from the Federal Government. Cost reimbursements from the City of Memphis for shared services and other payments.
- **Charges for Services** – Various fees collected for services or property use such as rental income, inmate telephone system revenue, TennCare revenue for health services provided to patients covered by this insurance system.
- **Fines, Fees & Permits** – Fees collected by the Courts and Elected Officials such as drug treatment fees, title search fees, permits, and various court fines and fees.
- **Other Revenues** – Miscellaneous revenues not appropriately assigned to other categories such as private donor grants and interfund interest income.
- **Investment Income** – All income from investments, including interest earned, dividends, gains or losses on disposition of an investment and any other investment income.

The **Expense** category includes the following account groupings:

Salary-related expense accounts:

- **Salaries** – includes basic salaries and wages.
- **Other Compensation** – other forms of compensation and overtime.
- **Fringe Benefits** – includes benefits such as health, life, pension, and unemployment.
- **Salary Restrictions** – used only for budget purposes as an offsetting salary budget to estimate savings from vacant positions.

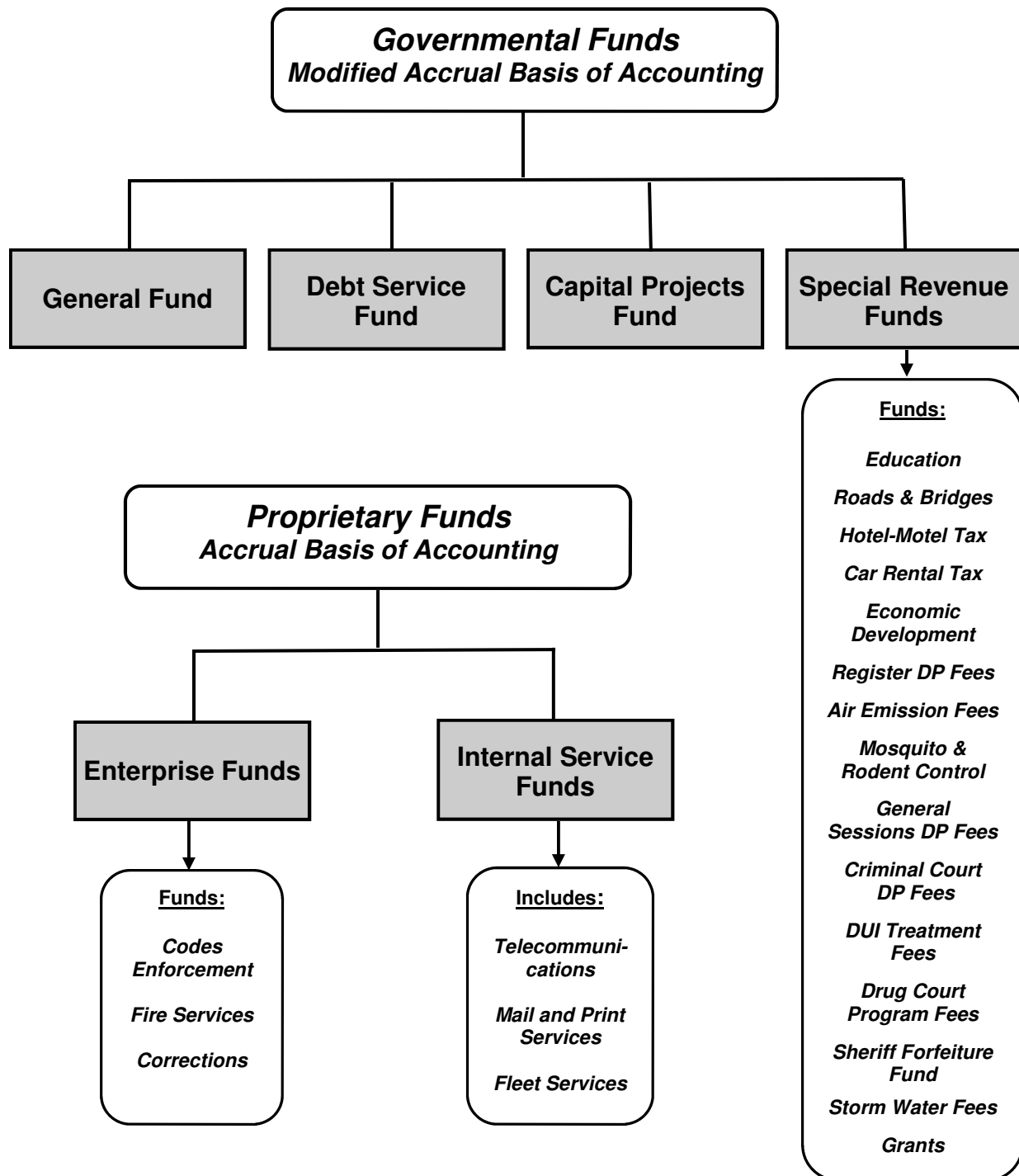
Operating Expense Accounts:

- **Supplies & Materials** – consists of materials and supplies, employee apparel, medical supplies, membership dues & publications.
- **Services & Other Expenses** – includes inside & outside printing, copy expense, education & training, travel, freight & storage.
- **Professional & Contracted Services** – includes contracts with consultants, sub-recipient of grant awards, and the jail medical contract.
- **Rent, Utilities & Maintenance** – includes communication expenses, utilities, maintenance of equipment and maintenance of County buildings.
- **Interfund Services** – charges or fees by one fund or department to another fund or department for the use of printing, copying, postage, fleet services, and repair of County vehicles.
- **Capital Asset Acquisitions** – used for the procurement of capital expenditures, land, buildings, equipment, infrastructure and vehicles.
- **Depreciation Expense** – used to record the periodic depreciation of capital assets based on estimated useful lives; depreciation expense is charged directly to internal service funds but used only for government-wide reporting for assets of the governmental funds.
- **Debt Service Expenditure** – expenditures related to debt from borrowing or capital lease financing, including principal repayment, interest payments and debt issuance costs.
- **Affiliated Organizations** – used to report payments to component units, joint ventures and other related organizations with which the County has an established affiliation.
- **Grants** – reports grants and subsidies to various not-for-profit organizations, other than those considered to be “Affiliated Organizations.”
- **Contingencies and Restrictions** – this category has budget amounts only since no actual expenses are charged to these accounts; used only by the central budget staff for budgeting for contingency and other unallocated budget purposes.
- **Other (Financing) Sources and Uses** – receipts and disbursements that are classified as “Other Sources and Uses” on financial statements such as the gain or loss on the disposition of a capital asset recognized in a proprietary fund.
- **Planned Use of Fund Balances** – used only for budget purposes to reflect budget adjustments when expenditures are effectively using fund balance from the end of the previous year.
- **Transfers** – Transfers are transfers between funds; purposes of transfers include local match for grants, operating subsidies and indirect cost allocations.

INTRODUCTION

Fund Accounting Structure

The accounts of Shelby County government are organized on the basis of funds, with the operations of each fund accounted for in a separate set of self-balancing accounts that comprise the assets, liabilities, equity, revenues, expenditures and transfers for that fund. Only Governmental and Proprietary funds are subject to appropriation in the operating budget. Fiduciary funds are not subject to appropriation and therefore, are not included in the chart below.



INTRODUCTION

Fund Accounting

The accounts of the County are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise the assets, liabilities, equity, revenues, and expenditures of each fund. Resources are allocated to each fund and accounted for based on the purpose for which they are designated and the means of controlling the spending activities. The individual funds are grouped into three basic types: Governmental, Proprietary or Fiduciary. Within the first two groups, the funds are further subdivided into six generic classifications: General, Debt Service, Capital Projects, Special Revenue, Enterprise, or Internal Service Funds. Only the governmental and proprietary funds are subject to appropriation as approved in the annual operating budget. Fiduciary funds are not generally subject to appropriation.

Major Funds:

Shelby County defines its major funds as those that equal more than either 10% of total appropriated revenues or 10% of total appropriated expenditures. A breakdown of the funds that meet this criteria based on a percentage of total appropriated revenues is as follows:

General Fund	31.4 %
Education	31.9 %
Debt Service	13.7 %
Grants	12.0 %
Other	11.0 %
Total	100.0 %

Fund Numbers:

A summary of the budgeted fund types by number are as follows:

Funds 001-049	General Funds
Funds 050-099	Special Revenue Funds
Funds 100-899	Grant Funds
Funds 901-904	Debt Service Funds
Funds 905-939	Capital Improvement Funds
Funds 950-959	Enterprise Funds
Funds 960-969	Internal Service Funds
Funds 980-989	Fiduciary Funds

GOVERNMENTAL FUNDS:

Governmental Funds are those through which most governmental functions are financed with the objective of having sufficient resources available to provide services to the public. A governmental fund's measurement focus is on the determination of financial position and changes in financial position. The modified accrual basis of accounting is used for governmental funds to recognize:

- 1) Revenues in the accounting period in which they are both measurable and available to finance expenditures made during the current fiscal period.
- 2) Expenditures in the accounting period in which the liabilities are both measured and incurred.

All funds that use the modified accrual basis of accounting are expendable and do not, therefore, have a capital maintenance objective. Four types of governmental funds are employed by the County: the General Fund, Special Revenue Funds, Debt Service Fund and Capital Improvements Fund.

General Fund

The General Fund is the most significant Governmental Fund. Transactions related to resources obtained and used for delivery of those services traditionally provided by a county government, which are not accounted for in other funds, are accounted for in the General Fund. These services include, among other things, general government, health, public works and community services. The operations of all fee operating elected offices are accounted for as sub-funds of the General Fund. General Fund revenues come from many different sources.

Special Revenue Funds

Transactions related to resources obtained and used for certain Federal and State programs and from other resources upon which legal restrictions are imposed are accounted for in the Special Revenue Funds. The following funds comprise the Special Revenue Funds:

The **Education Fund** accounts for revenues collected and allocated to the Shelby County Board of Education.

The **Economic Development Fund** provides a comprehensive accounting for resources received that can be used only for economic development activities supported by the County.

The **Roads and Bridges Fund** accounts for the receipt and expenditures of the County's share of the proceeds from the state gasoline tax and additional allocations from the State of Tennessee for road repairs and maintenance.

The **Hotel/Motel Tax Fund** accounts for the 5% tax collected on hotel and motel room rentals in Shelby County for the purpose of funding debt service repayment for the Sports Authority and funding for the Convention and Visitor's Bureau.

The **Sheriff Forfeiture Fund** accounts for the proceeds of goods seized and forfeited under the provisions of T. C. A. Section 53-11-451; includes the **Narcotic Fund**, **Alert Fund** and **DUI Vehicle Seizures Fund**.

The **Register's Data Processing Fees Fund** accounts for the \$2.00 fee collected on every document recorded by the Register to fund computer acquisition and enhancements for the Register's office.

The **General Sessions Data Processing Fees Fund** accounts for fees collected by the General Sessions Civil and Criminal Court Clerk to provide funds for computer acquisition and enhancements for the General Sessions Court Clerk's office.

The **Criminal Court Data Processing Fees Fund** accounts for fees collected by the Criminal Court Clerk to provide funds for computer acquisition and enhancements for the Criminal Court Clerk's office.

The **DUI Treatment Fines Fund** accounts for fines collected by General Sessions, Criminal and GS Drug Courts for use in alcohol & drug treatment programs through services offered by certain qualified organizations. DUI funds will be used in conjunction with services provided by Drug Court program.

The **Drug Court Program Fees Fund** accounts for fines collected by General Sessions and Criminal Courts and the GS Drug Court to be used exclusively for the creation and maintenance of state drug court treatment programs.

The **Car Rental Tax Fund** accounts for the car rental tax restricted for payment to the Public Building Authority for the funding of the NBA arena.

The **Air Emission Fees Fund** accounts for the proceeds of emission fees to be used in the Environmental Protection Agency (EPA) Title V program regulating all major and minor air emission sources in Shelby County.

The **Vector Control Fund** accounts for the collection of the Vector Control fee of \$.75 charged to all MLG&W customers on a monthly basis for the control of mosquito and rat populations.

The **Grants Fund** accounts for the receipts and expenditures of federal, state and other grants received by various County departments.

The **Storm Water Fund** accounts for fees collected from customers in unincorporated Shelby County to provide a dedicated source of funds to implement the provisions of the county's Storm Water Ordinance.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs (except for bonds issued for Proprietary Funds, which are reported as liabilities of the respective Proprietary Fund).

Capital Improvements Fund

The Capital Improvements Fund accounts for the acquisition and use of resources for the construction or purchase of major, long-lived fixed assets, except for those which are financed by Enterprise or Internal Service Funds. Resources for construction or purchase normally come from the issuance of general long-term debt and from governmental grants. A five-year Capital Improvements Fund plan is approved by the Board of Commissioners, while only the first year of the plan is included in the annual adopted budget. In order for a project to be appropriated, a commission-approved resolution is still necessary.

PROPRIETARY FUNDS:

Proprietary Funds are used to account for the organizations and activities of the County which are similar to those often found in private enterprises. The measurement focus is on determination of net income, financial position, and changes in financial position. The accrual basis of accounting is used for Proprietary Funds to recognize:

- 1) Revenues in the accounting period that the revenues are earned
- 2) Expenses in the accounting period that the expenses are incurred

Both the revenues and expenditures must be measurable in order to be reported in the accrual basis. Two types of Proprietary Funds are employed by the County: Enterprise Funds and Internal Service Funds.

Enterprise Funds

Enterprise Funds account for operations (a) that are financed and operated in a manner similar to private enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Enterprise Funds used by the County are as follows:

The ***Consolidated Codes Enforcement Fund*** accounts for operations of the Memphis and Shelby County Office of Construction Codes Enforcement. Revenues are generated through fees charged by the office.

The ***Fire Services Fund*** accounts for the operations of the Fire Department. Revenues are received from fees charged for fire services.

The ***Corrections Center Fund*** accounts for the operations of the Corrections facilities. Revenues are received from the State of Tennessee based on actual costs incurred for housing state prisoners.

Internal Service Funds

Internal Service Funds account for the financing of goods or services provided by one department to other departments or agencies of the County on a cost reimbursement basis. Shelby County uses an Internal Service Fund to account for the accumulation and allocation of costs associated with Mail and Print Services, Telecommunication Services, and Fleet Services.

FIDUCIARY FUNDS (Non-budgetary Funds)

Fiduciary funds (non-expendable trust funds) account for resources that are held by the County as a trustee or agent for parties outside the County and that cannot be used to support the government's own programs. Fiduciary funds are not appropriated in the operating budget. The following funds comprise the Fiduciary Funds:

The ***Pension Trust Fund*** accounts for the activities of the County's retirement plan, which accumulates resources for pension payments to employees.

The ***Other Post-employment Benefits (OPEB) Trust*** accounts for the fund used to accumulate and provide health and life insurance to retirees. Revenues for the Pension and OPEB Funds are provided by employer (County) contributions and premiums are paid by retirees.

The ***On-the-Job Injury (OJI) Fund*** accounts for the employee OJI program operated by the County. This self-insured fund is the County's equivalent of workers' compensation insurance.

The ***Unemployment Compensation Fund*** accounts for the unemployment compensation program operated by the County.

The ***Constitutional Officers Agency Fund*** accounts for assets held by the County's constitutional officers and other elected officials in an agency capacity for governments, litigants, heirs and others. Agency funds are custodial in nature and do not involve measurement of results of operations.

OTHER FUNDS (Non-budgetary)

The following non-budgetary fund exists only to provide payroll services for organizations not directly affiliated with the County. All costs are reimbursed by the organization:

The Memphis & Shelby County Film & TV Commission Fund; the County processes the payroll for this entity. This fund is used to record the net payroll amount due from the Film & TV Commission and the receipt of that amount.

INTRODUCTION

Fund-Division Matrix

Relationship Between Functional Units and Financial Structure

DIVISION-FUND	General Fund	Special Revenue Funds	Enterprise Funds	Internal Service Funds	Grant Funds	Debt Service Fund	CIP Funds
ADMINISTRATION & FINANCE:							
Various Programs*	X				X		X
Hotel-Motel Tax Fund		X					
Car Rental Tax Fund		X					
INFORMATION TECHNOLOGY SERVICES:							
Various Programs*	X						
Telecommunications				X			
PLANNING & DEVELOPMENT:							
Various Programs*	X				X		
Codes Enforcement Fund			X				
CORRECTIONS*			X		X		
PUBLIC WORKS:							
Various Programs*	X				X		X
Roads and Bridges Fund		X					
Storm Water Fund		X					
Fire Services Fund			X				X
Mail and Print Services				X			
Fleet Services				X			
HEALTH SERVICES:							
Various Programs*	X				X		X
Air Emissions Fund		X					
Mosquito & Rodent Control Fund		X					
COMMUNITY SERVICES*	X				X		
SHERIFF:							
Various Programs*	X				X		X
Sheriff Forfeiture Fund		X					
JUDICIAL:							
Various Programs*	X				X		X
Court DP Fees		X					
Drug Court/DUI Fees		X					
OTHER ELECTED OFFICIALS							
Various Programs*	X						X
Register DP Fees		X					
EDUCATION		X					X
DEBT SERVICE						X	

*Detailed information about programs within each Division or Fund is provided within the Division Summary sections. Detailed information and appropriation status for CIP Projects are provided in the CIP Section.

INTRODUCTION

Financial Planning Policies

LONG TERM FINANCIAL PLANNING

Long-term financial planning, with a focus on a sound, stable decision making, is a critical component of maintaining the County's strong financial position and AA+/AA1 bond ratings. The long term planning process includes both our operations and capital needs. In conjunction with preparing the annual operating budget, the County projects revenues and expenditures over at least the next five years to assess the impact of current decisions and capital projects on future operations and to identify potential issues in future years. This provides a basis to consider the longer term implications of decisions regarding new programs, program level changes, raises, benefits, and the property tax rate. Close cooperation exists between the Administration and the Commission in an open, thorough, and timely budgeting process that focuses on a clear understanding of funding for both operations and debt.

Strategies designed to strengthen the County's long-term financial position are addressed in more detail in the "Strategic Goals" section of this Introduction. Key policies intended to maintain the County's long term financial stability are presented in the following pages.

OPERATING BUDGET POLICIES

Balanced Budget

Preparing a balanced budget with conservative revenue estimates is a primary foundation for maintaining a strong financial position. Should a planned use of fund balance be used to balance the budget, there should be clear documentation of the availability of fund balance for this purpose, the reasons for using fund balance and the expected impact on the following year's budget.

According to Tennessee General Statute, local governments are required to operate under an annual balanced budget ordinance. Deficit financing is prohibited by both Tennessee Law and the County Charter. Current expenditures must be matched by equal dollars of revenue and appropriated fund balances to provide a balanced budget.

Any adjustments or amendments to the operating budget will be done in accordance with County regulations by transfer or resolution to maintain a balanced budget at all times. The Operating Budget will include all programs not specifically

eligible for inclusion in the Capital Improvement Plan.

Overall Budget Growth

The County will seek expenditure reductions whenever possible through efficiencies and the reduction or elimination of programs, policies, and practices that are no longer necessary or not mandated to be performed by the County. The County will not commit to programs with significant future costs without first identifying those costs and the ongoing sources of funds available to finance those programs.

Position Control and Compensation Policies

Because salaries represent the largest operating expense for the County, specified policies are maintained to control this significant expense.

Staffing levels will be limited to final positions counts and FTEs noted in the budget document. Temporary positions are excluded from the FTE count. Increases to the position count must be approved by resolution.

To assist in controlling personnel expenses, the Position Control Budget (PCB) defines the approved salary for each budgeted position. The purpose of the Position Control Budget is to ensure that total salary costs will not exceed the amount of the annual cost of living raise from one fiscal year to the next. This budget is maintained by the Finance Department throughout the year.

The County seeks to provide equitable pay among comparable jobs and to contain the growth of compensation costs through organizational efficiencies and productivity within the workforce. A Compensation Policy is prepared annually by the Human Resources department, with approval by the Board of Commissioners, to define those policies and the salary ranges for all job classifications.

Any salary increase that is requested for an employee by a department must first be approved by Compensation. The department then identifies funding for the increase through availability from another position, a salary contingency account, or an approved resolution appropriating funds from another source.

The salary restriction (also known as the lapse restriction), is a reduction to available salary funds made to allow for expected savings associated with vacancies or other types of naturally occurring attrition. Allowances are made

INTRODUCTION

to consider the variable attrition rates within different types of functions when salary restrictions are calculated. Savings realized through vacancies or attrition (lapse) cannot be used to fund salary increase requests. A Hiring Review Committee was established several years ago to review the necessity for positions requested for hire by departments and to regulate hiring patterns in relation to funding restrictions.

Fund Balance Reserve Policies

To ensure that sufficient resources are available to adapt to variable economic conditions and unforeseen emergencies, the County will maintain unassigned fund balance as a percent of revenue in the General Fund of 15% to 25%. To provide for debt service requirements, the County will maintain an unassigned fund balance of revenue in the Debt Service Fund of 20% to 30%.

Revenue Policies

Non-recurring revenue - The County will minimize the use of non-recurring revenue to fund ongoing operations. Current operating costs will be financed by current operating revenues.

Revenue Projections - Revenue estimates will be realistic and accurate without being overly optimistic. Estimates will be based on objective judgment. Conservative projections will minimize the adverse impact of a revenue shortfall.

Setting Fees and Service Charges - Stable property tax rates will be maintained to avoid wide annual fluctuations as economic and fiscal conditions change. The County will seek to balance the financial burden of programs and facilities as fairly as possible between the general taxpayers and the direct recipients of those programs, recognizing the shared value of many public expenditures and the inability of some citizens to pay the full cost of certain benefits.

Grant Funding Policies

The County will competitively seek a fair share of available State and Federal financial support unless conditions attached to that assistance conflict with the County interest. The County will not generally use local funding to compensate for lost state and federal grant funds. Grant matching funds must be included in the approved operating funds of the sponsoring division or department. Indirect costs for administrative overhead incurred by the County must be allocated to the full extent allowed by the grantor.

Financial Planning Policies

Debt Policies

The County has adopted and follows a formal Debt Management Policy as an essential component to the County's long term financial stability. Detailed information about Debt Management practices and target ratios is provided in the Debt section of this document.

The County will limit the amount of new general obligation debt to that which can be supported by the community under conservative fiscal and economic projections and that which will maximize the probability of sustaining the County's favorable bond ratings.

The County will minimize debt service costs through the judicious use of available debt instruments, consistent with the desirability of maintaining stable current tax rates and the equitable distribution of costs among present and future users.

Only capital projects will be financed by long-term debt. The County will limit long-term debt for capital projects funded locally to \$75 million and annual debt issuance to less than \$70 million.

Capital Budgeting Policies

Capital expenditures are authorized through the Capital Improvements Plan. Major capital expenditures for General Fund departments are funded through issuance of bonds or notes. Smaller capital expenditures for General Fund departments are made from the pay-as-you-go fund. Pay-as-you-go financing will be used when possible to conserve debt capacity for future bond issues.

Capital expenditures for grants are made through the grant's operating budget. Capital expenditures for enterprise and internal service fund operations are made from those funds.

The CIP will be reviewed and updated annually in order to maintain a current and viable program of ongoing capital projects. More information about planning and budgeting for Capital Improvements is provided in the CIP section of the document. The five year capital improvement program provides an identification and prioritization of capital projects. Shelby County takes an annual inventory of capital assets, part of which is to assess the condition of major capital assets. This allows the County to plan future improvement and replacement requirements

INTRODUCTION

Accounting Policies

Basis for Accounting Policy (and Budgeting)

The Shelby County Home Rule Charter requires that the Mayor maintains the accounting systems of Shelby County Government in accordance with Generally Accepted Accounting Principles (GAAP) applicable to governmental entities, including all Governmental Accounting Standards Board (GASB) pronouncements. The County Commission established these countywide accounting policies with the adoption of Resolution No. 21 on April 25, 1988. The policies were then amended by Resolution No. 19 on June 26, 1989, Resolution No. 17 on April 26, 1993 and Resolution No. 51 on April 12, 2004.

In conjunction with the implementation of a new financial system, modifications were made to the Chart of Accounts effective July 1, 2009, to be more consistent with current recommended practices. A resolution was adopted by the Commission on June 1, 2009, to amend County accounting policies to provide for this modification of line item accounts for Revenue/Expenditure/Transfers. It also made minor changes to ensure consistency with recent accounting pronouncements by the Governmental Accounting Standards Board (GASB).

Fund Accounting Management

The accrual basis of accounting is used in the Countywide Financial Statements, business type funds and fiduciary funds. Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded as incurred.

The modified accrual basis of accounting is followed by governmental funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. To be considered available, collection must occur within 60 days after year end, unless a different time period can be clearly documented as more appropriate to be available to pay liabilities incurred as of year-end. Expenditures generally are recorded when the liability is incurred, but general long-term debt service (maturing principal, interest, and fiscal charges) are recorded when due.

In applying the "susceptible to accrual" concept to inter-governmental revenues, the legal and contractual requirements of the numerous

individual programs are used as guidance. There are essentially two types of these revenues. In one case, monies must be expended on the specific purpose or project before any amounts will be paid to the County; therefore, revenues are recognized based upon expenditures. In the other case, monies are virtually unrestricted as to the purpose of the expenditure and are revocable only for failure to comply with prescribed compliance requirements, such as equal opportunity employment. These resources are reflected as revenues at the time of receipt or earlier if they are "susceptible to accrual."

Fund Balances

The fund balance for governmental funds will consist of the following five components: Nonspendable, Restricted, Committed, Assigned and/or Unassigned fund balances. Fund balance reserve levels are further defined in the Financial Policies section.

- **Nonspendable fund balance** consists of amounts not in spendable form or amounts that legally or contractually must be maintained intact.
- **Restricted fund balance** consists of amounts subject to external enforceable legal restrictions that are either: 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.
- **Committed fund balance** consists of amounts whose use is constrained by limitations that the County imposes upon itself by the Shelby County Commission through resolution.
- **Assigned fund balance** consists of the County's intended use of resources. It allows decision-making authority to be delegated to some other body or official.
- **Unassigned fund balance** is the residual net resources.

Internal Accounting Controls

The County will develop and manage its accounting system to provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining

INTRODUCTION

Accounting Policies

accountability for assets. "Reasonable assurance" recognizes that the cost of a control should not exceed the benefits likely to be derived; and the evaluation of costs and benefits requires estimates and judgments by management.

Audits

The County will ensure the conduction of timely, effective, and periodic audit coverage of all financial records. An annual "single audit" of operating and grant funds accomplishes this function.

Components of Net Assets and Fund Balance

County policy has been to maintain the General Fund balance at a level between 15% and 25% of expenditures. The Projected Fund Balances for June 30, 2012 and June 30, 2013 are adjusted for budgeted or known changes and are well within this targeted range. Restrictions, reserves, designation and other components of net assets and fund balance are determined in accordance with generally accepted governmental accounting principles. Generally, restrictions and reserves are legal limitations regarding the use of the balances.

Capital Assets

Capital assets purchased for general governmental purposes are recorded as expenditures in the governmental funds and recorded at cost in the Countywide Statement of Net Assets. Contributed assets are recorded at fair market value at the time of receipt. Infrastructure assets, principally, roads, bridges, curbs, gutters, streets, sidewalks, drainage systems, and lighting systems have been recorded retroactive to July 1, 1980.

Property and equipment of the proprietary funds (Enterprise and Internal Service Funds) are reported as assets of the funds rather than as expenses and are stated at cost or estimated cost. Depreciation expense on the capital assets is reported in the proprietary funds.

Depreciation for all applicable capital assets is charged as an expense to operations in the Countywide Statement of Activities. Accumulated depreciation is reported as a reduction of capital assets. Depreciation is provided over the estimated useful lives of the assets using the straight-line method of computing depreciation as shown below:

Land Improvements	10 - 30 years
Buildings	30 - 40 years
Equipment Infrastructure	10 - 50 years

Claims and Judgments

Claims and judgments, which can be reasonably estimated and could result in probable material losses to the county, should be given proper recognition under generally accepted accounting principles. For governmental type funds, the liability is recognized within the applicable fund if expected to be liquidated with expendable, available financial resources. All other material unpaid claims and judgments not to be liquidated with expendable, available financial resources are inventoried and recorded as a liability and expense in the Countywide Financial Statements. In business type funds, probable and measurable loss contingencies are recorded as incurred within the applicable fund.

Inventories

Expendable supplies held by governmental funds are recorded as expenditures at the time such items are purchased and are not reflected as inventories because the amount of these supplies is insignificant. Inventories of business type funds are stated at cost generally on a first-in first-out basis - or market, whichever is lower, and are charged to operations when consumed.

Interfund Activities

Reciprocal interfund activity (exchange or exchange-like transactions), except interfund loans, is accounted for as fund revenues and expenditures or expenses (as appropriate). Interfund loans are accounted for as assets and liabilities and this activity is not reported in the statement of revenues and expenditures/expenses. Transactions which constitute reimbursements of a fund for expenditures, or expenses initially made from the fund which are properly applicable to another fund are recorded as expenditures or expenses (as appropriate) in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed. All interfund transactions except loan/advances, reciprocal transactions, and reimbursements are accounted for as transfers.

Compensated Absences

County employees are granted sick and annual leave in varying amounts in accordance with administrative policies and union memorandums

INTRODUCTION

Accounting Policies

of understanding. Accumulated vacation days are required to be used within eighteen months. In the event of termination or retirement, the employees are reimbursed for accumulated vacation days. Generally, employees not on the Executive Salary Schedule are compensated for accumulated sick leave, not to exceed 75 days, upon retirement. The amount of such payment is calculated on a maximum base salary of \$20,000 per year. Certain exceptions to this policy occur in accordance with the terms of various union contracts.

Amounts paid for sick and annual leave are recorded in current salary expenditures or the Governmental Funds. In the Countywide Financial Statements and the business activities type funds, sick and annual leave obligations are recorded as expenses when such obligations accrue to the benefit of the employees.

Cash, Cash Equivalents and Investments

Investments and equity in pooled investments are stated at their related fair market values. The County pools substantially all of its cash, cash equivalents, investments and accrued interest receivable. Each fund participating in the investment pool owns a pro rata share in the pool. Investment income of the pool is allocated to the various funds based upon average investment balances.

Risk Management

The County maintains a self-insured Group Health Insurance Fund for active employees and their dependents, funded by participation of both the County and its employees. A self-insured Tort Liability Fund is funded by premiums paid by departments using County vehicles and by transfers from the General Fund. Claim liabilities of the Tort Liability Fund are estimated based on prior years' claims expense, current year actual claims and a review of pending litigation through the County Attorney. The County also maintains a self-insured Employer Insurance Fund for on-the-job injuries and unemployment compensation, funded by premiums paid by County departments based on a percentage of salary costs. Claims liabilities are estimated based on prior year claims expense and current year actual claims incurred.

Retirement and Post-Employment Benefits

The Shelby County Retirement System is a single employer defined benefit public employee retirement system (PERS). All full-time and

permanent employees of the County are required to participate in the system. The system is administered by a board. The Shelby County Board of Commissioners establishes the benefits and contribution provisions. Retired employees may participate in post-employment health and life insurance benefits through the OPEB Trust – a single-employer defined benefit plan.

Charitable Contributions

The only charitable contributions made by the County are approved in the annual budget process or by resolution of the County Commission.

Outsourcing and Privatization Policies

The County does not have a formal policy regarding the provision of services through outsourcing or privatization. Potential savings or other benefits to the County that may result from privatization may be evaluated on a cost-benefit basis for specific services.

Purchasing Policies

Shelby County maintains a detailed manual of purchasing procedures and policies, as approved by the County Commission. The policies are intended to ensure the procurement of supplies and services of the right quality, in the proper quantities, at the right time, and from the right source.

